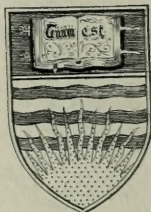


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# THE ECONOMICS OF SOCIAL PROBLEMS

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# THE ECONOMICS OF SOCIAL PROBLEMS

*AN INTRODUCTION TO SOCIAL ECONOMICS*

BY

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AUTHOR OF "THE SUBSTANCE OF ECONOMICS"



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# THE ECONOMICS OF SOCIAL PROBLEMS

AN INTRODUCTION TO SOCIAL ECONOMICS

BY  
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## PREFACE.

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WHILE there is on the one hand an ample supply of treatises on economic science, and on the other an abundance of books dealing with particular social problems, there appears to be a scarcity of general works that deal in small compass with the economic aspects of every-day social conditions. In this volume I have outlined the economics of the more urgent social problems in the hope that a broad survey may prove useful to the reader interested in these subjects, and serve as an introduction to further study in the more detailed and specialised works.

In writing this book I have assumed no previous knowledge of economic principles on the part of the reader, and have refrained as far as possible from using technical terms. For the student who wishes to inquire more fully into the various problems many references and a fairly representative bibliography have been provided.

I am under a deep obligation to Professor Sir William Ashley and Professor J. H. Muirhead, who read this work in manuscript and offered invaluable criticisms and suggestions. My sincere thanks are due to Mr. H. Hamilton, both for reading the manuscript and for his ready assistance throughout its preparation. I am indebted also to Mr. R. J. Thomson, who read the chapters dealing with labour questions and gave me the benefit of his experience in these matters, and to Mr. R. H. Coats for his kindness in revising the proofs.

I have purposely submitted the manuscript to persons of somewhat different opinion and outlook in order to derive criticism from more than one standpoint. Though I may not have succeeded always in keeping my personal views in the background, I have endeavoured to present judicially the pros and cons of the many controversial questions that necessarily arise in the course of the discussions.

H. A. S.

*July, 1925.*

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# CHAPTER I.

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## INTRODUCTORY.

Economics is a social science, and "Social Economics," therefore, might seem needless reiteration. The distinction is suggested more by common usage of the terms than by any inherent difference in their meaning. "Economics is a study of mankind in the ordinary business of life ; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing. Thus it is on the one side a study of wealth ; and on the other and more important side, a part of the study of man." Marshall's well-known definition emphasises the human element in Economics that had been neglected by the writers of the early nineteenth century. The recognition that Economics was primarily a study of man brought it into closer relation with the other social sciences than had been possible when it was regarded merely as a science of wealth-getting and wealth-spending. As a pure science, Economics may be taken to exclude ethical, psychological, and political considerations, unless they directly affect the question of producing, exchanging, distributing and consuming wealth. But in the practical application of the science, it is impossible to disregard these non-economic influences, for they

play at least an equal part with the economic in determining man's welfare.

In one sense Social Economics is more restricted, in another it is more comprehensive, than Economics. It is more restricted in that it concentrates on those sections of the parent science that deal with the actual conditions in which people work and live. It is specially concerned with such problems as the nature and extent of poverty, the wages system, the environment of the worker in the factory and the home, unemployment and its prevention and relief. The doctrines of pure Economics with regard to the fundamental principles of value and exchange are, in this book, accepted without question. The monetary and credit system has an important bearing on social questions, but, while the relation is noted, no attempt can be made here to investigate the underlying operations.

For example, economic theory shows that the general level of prices is largely dependent upon the amount of effective money (credit documents as well as regulated currency) in circulation. The fact that the purchasing power of a worker's wage varies with changes in monetary conditions must obviously be taken into account in any survey of social problems. But it is not so imperative in a book of this description to enter into the why and wherefore of the inter-relation of money and prices. One can assume that the price level *is* affected in this manner, and therefore proceed immediately to deal with the possibilities of adjusting money wages according to the purchasing power of the standard monetary unit.

There are some branches of the subject, however, in which it is not so easy or satisfactory to take the teachings of pure Economics for granted. An analysis of the governing principles is more expedient in some departments of Social Economics than in others. Thus, in the following chapters,

a little attention is given to the theory of wages, but the theories of rent, interest and profits are not specifically examined. This is not because the principles of wages are more important, even from the social standpoint, than those governing other forms of distribution. In a sense there is no special theory for each, for they are all determined by similar laws, and one cannot be adequately discussed without reference to the others. The reason why wages only are considered lies in the restricted aim of this work. A knowledge of the factors influencing wages is essential to any inquiry into such problems as (say) a national minimum wage or the relation between men's and women's wages.

Yet, notwithstanding these limitations, Social Economics might be regarded as wider in scope than Economics as usually understood. In so far as it takes cognisance of non-economic factors (and no account of social problems would be satisfactory if it did not) Social Economics rests on a broader basis than ordinary economic doctrine. The conception of "utility" will serve to illustrate this distinction. In orthodox Economics, utility is defined as the attribute of anything that can satisfy a want. The economist takes great pains to stress the non-moral element in utility. It is not the primary concern of the economist to decide whether the satisfaction of a particular want is beneficial or harmful in any sense other than the economic. A drug may or may not be put to a vicious use; from the strict economic standpoint the position merely is that the demand for a drug has given rise to activities which are directed to satisfying that want. The wheels of production are set in motion, and a certain proportion of the community's resources are appropriated for the purpose. Social Economics would belie its name if it did not pay attention to injurious and inequitable forms of production

**Social  
Economics  
and  
Non-economic  
Factors.**

and consumption, and study means whereby the abuses might be minimised, if not altogether eliminated.

A further consideration has to be noted. It is not only a question of whether the commodity is harmful or otherwise, but whether its production prevents some other commodity of greater social advantage from being produced. The community's stock of labour and material is not unlimited, and the production of an article of luxury means that the resources for supplying necessities of life have been thereby reduced. While there is no objection to the making of luxuries as such, many would maintain that the elementary needs of the community should have first claim on the resources and means of production. But this condition is not necessarily found in a system where the money value of a commodity is practically the only indicator for production to follow. If a greater profit is made from manufacturing luxuriously equipped motor-cars than from growing wheat, there is a drift of labour and capital to the more profitable enterprise. Similarly in the case of house building; since the number of bricks available at a given time is limited, the person who offers the best price gets them—though the bricks may go to build a country mansion or licensed premises instead of workmen's cottages. Here again, Social Economics cannot ignore the moral implications.

In the computation of the total production of a community, however, a mansion costing £10,000 would rank equal to twenty cottages costing £500 each. Few would contend that the mansion gives as much social benefit as the score of cottages. The term "production," therefore, may be interpreted either from the point of view of money value or from that of social service. What exactly is production, and arising out of this question, what is productive labour?

**Money as a  
Measure of  
Economic and  
Social Values.**

These questions are easily answered in pure economic theory. Production is the creation of utilities. Fashioning a piece of wood into a walking stick adds a utility of form. Storing water from a period of heavy rains to one of drought gives a utility of time. Transporting timber from the forest to the factory imparts a utility of place. Utility of a personal character would be rendered by the direct services of professional men and civil servants. Labour that provided any of these utilities would, strictly speaking, be "productive." So would all the efforts that were indirectly involved. Thus in the narrow sense any individual who satisfied a want, whether this want were good or bad, constructive or destructive, would technically be a producer.

But the preceding definition hardly satisfies the student who takes a wider view than the merely economic. Is a bookmaker at the race-course productive? In the restricted sense of the term he is, since he provides a service that people require and for which they are willing to pay. But if one adopts the broader and more reasonable meaning of the word, his "productivity" is a very uncertain quantity. And if one takes the money measure of the bookmaker's "productivity" and compares it with that of (say) the agricultural labourer's "productivity," the result is very incongruous. The one may gain £20 a week for performing a service, without which the world would go on just as well, if not better. The other may get 30s. a week for producing commodities without which the world would be in a poor way. Again, a writer of trashy stories or revues may have an income running into thousands whereas the artist who composes good novels or plays may be unable to make a living.

Thus the money value of a man's service cannot be regarded as an adequate measure of his real contribution to

society. Yet the money value is the least imperfect measure that the economist possesses. Evidently, therefore, the study of Social Economics must be accompanied by a broader outlook which takes note of influences and factors that do not figure in the ordinary economic formulae (unless they are covered by the oft-recurring phrase "other things being equal") if the science is to be applied to the facts of everyday life.

In the formulation of economic laws, or statements of tendency, perfect competition is usually specified or tacitly assumed as the normal condition. Anything which prevents an economic law from operating is regarded as "economic friction." Many works on economics are apt to give one the impression that competition is the rule, and that "friction," while not uncommon, is a disturbing influence of secondary importance. In actual life, however, free competition is the exception, the implied perfection of knowledge and freedom of movement being seldom found. Ignorance on the part of producers as to what and how much their rivals are turning out, ignorance on the part of consumers as to the demand of and the prices offered by other consumers, both serve to prevent the realisation of a perfect competitive price. The immobility of labour and, to a less extent, of capital hinders an easy flow of resources into those channels where the greatest economic advantage is to be obtained. Non-economic motives such as family affection and local ties frequently prevent the exact adjustment of supply of and demand for labour that is assumed in pure economic theory.

Public policy may deem it necessary deliberately to impede, and even to nullify, the tendencies laid down in economic laws. For example, had the laws of supply and demand worked without hindrance during the Great War,

the prices of important necessities of life would have soared to such limits as to cause great hardship to the poorer classes. The Government wisely fixed maximum prices for certain articles, despite the protests of those who considered it almost sacrilegious to interfere with the laws of supply and demand. In the same way, the State interferes with the so-called economic freedom existing between employers and employed by insisting to an increasing degree on the provision of a minimum wage. Even if the competitive system were nearer the ideal, and every person had an equal opportunity from the start, there would still be need of intervention, for the employer has by his very position a distinct advantage in bargaining power over the men he employs. A very desirable "economic friction" may be exercised by the State and the trade union.

Considerations such as these help to determine the scope of Social Economics. The subjects to be studied in these chapters are fewer than those found in the ordinary work on general Economics. Attention is directed only to those questions that concern the mass of the people in their every-day lives. The teachings of the pure science of Economics are taken largely for granted, except in those departments where some analysis is specially desirable. On the other hand, Social Economics is more inclusive than Economics as usually understood in that it takes into account the many non-economic influences bearing on man's welfare. Social Economics recognises that money value is not always a true index of real social utility, that while it may indicate the extent of economic wealth it is not necessarily a measure of social wellbeing.

The treatment in the following pages is as much descriptive as analytical, and, where a knowledge of the evolution of a particular movement or scheme is deemed

necessary to a more complete understanding, a short historical account is introduced. Thus, in dealing with trade unionism, co-operation, poor relief, housing and similar questions, the main stages in their development are briefly outlined with a view to affording a fuller comprehension of the position as it is to-day.

The actual arrangement of the several subjects is somewhat arbitrary. It has been thought advisable to commence with a descriptive account of poverty, partly because it is the most obvious problem confronting the social reformer, partly because the various investigations on the matter afford a basis for discussion. The wages system in its manifold aspects is next examined, and then the question of hours and working conditions. Though a separate chapter is devoted to the problem of the woman worker, it should be regarded as contributing to the general discussion affecting all work and wages, for the economic interests of men and women workers are closely interwoven, and are dependent upon the same ultimate factors. The succeeding chapters deal with the workers' unrest, with their organisations, and with the plans and movements adopted or proposed for securing better conditions. The objects and functions of trade unionism and co-operation are briefly reviewed. Unemployment, one of the most pressing of all social questions, calls for a somewhat more detailed study, and, though it is impossible to do justice to the problem in two or three chapters, an attempt is made to indicate the more outstanding causes, and the principal suggestions for remedying or mitigating the evil. The distress caused by unemployment and other factors calls for a survey of the system of public aid. Following a description of the Poor Law, the principles and methods of social insurance in its various forms are examined. Finally, the housing of the working classes is discussed,

and emphasis is laid on the connection between this problem and the wages system as a whole.

Throughout the chapters, attention is given to the functions and activities of the State in relation to social conditions.

## CHAPTER II.

---

### INVESTIGATIONS INTO POVERTY.

There is no unanimity on the definition of poverty, since it is essentially a relative term. What constitutes "poverty" varies from one person to another according to upbringing, environment and needs. An income that means "poverty" to a skilled artisan might mean a large degree of comfort to an agricultural labourer. The interpretation also varies with time, for, with the advance in civilisation, what is considered sufficient for a person's requirements in one period may be found inadequate in the next.

**Definition  
of Poverty.**

Some writers imply by the term "poverty" the receipt of insufficient income to provide bare subsistence, or, as others phrase it, bare physical efficiency. "Bare subsistence," however, is not very determinate, for it is subject to variation between different people and at different times and places. And a great deal would depend on the manner in which this subsistence income is spent. By a scientific allocation of the income among the several necessities of life in proportions calculated to secure the maximum benefit, it would doubtless be possible to arrive at a subsistence minimum below that generally, though vaguely, understood. But as people rarely lay out their income in this manner (even if it were possible to calculate what the proportions should be) the subsistence level must necessarily be taken to be higher than the theoretical minimum.

Mr. Seebohm Rowntree defines what he means by the

minimum necessary for physical efficiency in the following terms. "A family living upon the scale allowed for in this estimate must never spend a penny on railway fare or omnibus. They must never go into the country unless they walk. They must never purchase a halfpenny newspaper or spend a penny to buy a ticket for a popular concert. They must write no letters to absent children, for they cannot afford to pay the postage. They must never contribute anything to their church or chapel, or give any help to a neighbour which costs them money. They cannot save, nor can they join sick club or Trade Union, because they cannot pay the necessary subscriptions. The children must have no pocket money for dolls, marbles, or sweets. The father must smoke no tobacco, and must drink no beer. The mother must never buy any pretty clothes for herself or for her children, the character of the family wardrobe as for the family diet being governed by the regulation, 'Nothing must be bought but that which is absolutely necessary for the maintenance of physical health, and what is bought must be of the plainest and most economical description.' Should a child fall ill, it must be attended by the parish doctor; should it die, it must be buried by the parish. Finally, the wage-earner must never be absent from his work for a single day.

If any of these conditions are broken, the extra expenditure is met, *and can only be met*, by limiting the diet; or, in other words, by sacrificing physical efficiency."\*

Some writers would go so far as to substitute "standard or living" for "bare subsistence" in the determination of the poverty line, thus widening the interpretation of poverty. Sir Leo Chiozza Money, for example, includes in his estimate for 1914, "amusements including holiday, fares, drink, tobacco, newspapers, books and pocket money."

\* *Poverty, A Study of Town Life*, 1901, Ch. V.

A family unable to afford such expenditure would, according to this view, be living in poverty.\* But "standard of living" is even more difficult to define than "subsistence," for whereas the latter could be theoretically estimated as to the minimum, the former is extremely relative in its application. Necessities, comforts and luxuries are very indeterminate terms, and it is impossible to say where one merges into another. It can merely be stated that whereas a subsistence income provides for necessities of life only, a standard of living permits a certain amount of comforts and even luxuries.†

There is a third view as to the definition of poverty, viz., insufficient income to ensure maximum economic efficiency. But this definition cannot be accepted, for it would apply only to poor persons employed or capable of being employed in industry, and would exclude those in poverty for reasons of age or infirmity. Again, it is difficult to measure the degree of efficiency. Is the efficiency to be reckoned in terms of output? If so, a considerable period of time will have to be taken, for an increase or decrease in income need not react on output for several weeks or even months. Secondly, efficiency at work depends on factors other than material income and expenditure; increasing attention has been given in the last few years to the psychological influences on a man's output. Or is efficiency to be taken as meaning something broader and more humane than mere output? A worker's manner of living, his functions of citizenship, his moral standard and general outlook, might all properly be included in the term "efficiency," for they are influenced to some extent by the

\* *The Nation's Wealth*, p. 92. See below (p. 67) for his estimate of a dock labourer's standard of living in 1920.

† The standard of life in relation to wages is discussed more fully in Ch. IV.

economic factor. It is doubtful, however, whether the majority of writers who define poverty in this manner would imply by the term deficiency in all these requisites.

To avoid ambiguity it is preferable to employ special terms for the different types of poverty.

**Destitution and Pauperism.** Thus *destitution* is taken to indicate such inadequacy of the necessities of life that health and vitality are impaired. Destitution

implies more than a mere physical state :

“ It is indeed, a special feature of destitution in modern urban communities that it means not merely a lack of food, clothing and shelter, but also a condition of mental degradation. Destitution in the desert may have been consistent with a high level of spiritual refinement. But destitution in a densely crowded modern city means, as all experience shows, not only oncoming disease and premature death from continued privation, but also, in the great majority of cases, the degradation of the soul.”\*

*Pauperism* is not as wide a conception as destitution. It applies to those who are in receipt of public relief. Those people are “ destitute ” whose income is insufficient to maintain life and efficiency. Those are “ paupers ” who have their incomes made up under the Poor Law. Estimates of “ legal pauperism ” are of course more easily secured than those of destitution, and from this arises a danger of undue optimism. During the sixty years before the war, there was a marked decline in pauperism—from 62 per 1,000 in 1850 to 16 per 1,000 in 1911. Little is proved by such figures, however, for the drop is largely accounted for by growing stringency of administration ; also by the fact that much relief had come to be afforded by local health, lunacy, unemployment, pensions and other authorities, causing a distinct reduction in the official

\* S. & B. Webb, *The Prevention of Destitution*, pp. 1-2.

Poor Law statistics. While in many ways the conditions of the working classes improved during the second half of the nineteenth century, it cannot be admitted that the technical reduction in pauperism is a true index of the improvement. The figures of "legal pauperism" tend to give too rosy a view of the real situation. Owing to insufficient information as to the extent of true destitution, one must rely to a large extent on Poor Law and similar statistics for material relating to the problem. Yet the caution that these statistics under-estimate the gravity of the situation cannot be stressed too much.

The question as to what constitutes the poverty line, *i.e.* the level of income below which a man is in poverty, has for long exercised the minds of social reformers and statisticians, but the estimates have varied widely. This is to be expected, having regard to the variance of opinion on what the term "poverty" really signifies. Thus the poverty line of one investigator rules out anything over and above the bare minimum of existence; that of another would take in a fair proportion of the comforts of life. Of the inquiries into poverty conditions in different towns, the best-known are those of Booth, Rowntree, and Bowley and Burnett-Hurst, whose general findings are considered later.

Most of the reports, however, on the subject of the poverty line are now a matter of history, and as economic conditions have so materially altered in the last few years no useful purpose would be served by attempting to apply the majority of those estimates to present conditions, unless important modifications were made. But such investigations are still useful in that they furnish a basis for further inquiry, especially with regard to method. Investigators into poverty and pauperism now and in the future can gain valuable hints from the published

reports of their predecessors as to the proper lines to pursue and the pitfalls to avoid.

In investigations into the nature and extent of poverty it is necessary to obtain information on many points, of which the following, perhaps, are the most important.

**Requisite  
Information.**

- (a) *Wages.* This is obviously the first information to secure. But nominal or money wages do not mean anything without reference to
- (b) *Prices.* The necessities of life should alone be considered, and it is advisable to refer where possible to retail rather than to wholesale figures. It is only in recent years that a "cost of living" as well as a "wholesale" index number has been constructed.\* The cost of travelling to the place of work is also an important factor, especially in large towns.
- (c) *Rent.* Statistics of rent are not so generally representative as those of wages and prices. They are more subject to local conditions and are more arbitrary. While rents in London are at least 25 per cent. higher than in any other English town, the prices of goods are often lower than elsewhere.†
- (d) *Dependants.* The number of dependants manifestly affects a person's standard of life : an income which would maintain a single man in decent comfort might spell poverty for a married man with several children. Statistics of other dependants—aged relatives, etc.—are also necessary but are more difficult to secure.

\* See below pp.68-9 for account of index numbers.

† It has been maintained by some authorities that rents and prices tend to be regarded as a single unit, and that if one part is low the other tends to be high, and *vice versa*. In many provincial towns, rents are relatively low and prices high, while, as stated above, the reverse is the case in London. There are, of course, many exceptions.

- (e) *Regularity of work.* This is of utmost importance ; estimates based on earnings at a particular time may be wide of the mark, especially in the casual and seasonal trades. Even if the aggregate earnings over a period are known, they cannot be strictly compared with a similar sum earned in *regular* amounts by other workers. Precariousness in income has usually a detrimental effect on a person's manner of expenditure, and even on his character. Of two men with equal gross incomes, one man may be in destitution while another manages to carry on—due partly to the difference in regularity of the income and the manner of spending it.
- (f) *Extent of State subvention.* The extent of State subvention is increasing, but it does not apply equally to all families. State aid in the form of old age pensions, meals for school children, provision of maternity centres, etc., should all be taken into account.

Booth conducted his investigation into London conditions mainly during 1886-8, and his **Booth's Investigation.\*** conclusions, therefore, would not apply to the conditions in London at the present time. His methods of inquiry and classification, however, are still of interest.

With the help of School Board visitors, Booth inquired into thousands of cases, obtaining information on the extent and regularity of income, the family budget (over a period of five weeks), and other matters. (He relied too much on family enquiry, with the result that his conclusions were not truly applicable to non-family people.) He drew the poverty line at 21s. His well-known classification of the people of London is of more than historical

\* Booth : *Life and Labour of the People of London*, 1891.

value, especially as regards the *proportions* of the several classes. He divided the people into eight groups :—

- A The lowest class of occasional labourers, loafers—those verging on the criminal type.
- B Casual earnings—the “very poor.”
- C Intermittent earnings
- D Small regular earnings } together the “poor.”
- E Regular standard earnings.
- F Higher class labour.
- G Lower middle class.
- H Upper middle class and above.

“The divisions indicated here by ‘poor’ and ‘very poor’ are necessarily arbitrary. By the word ‘poor’ I mean to describe those who have a sufficiently regular though bare income, such as 18s. to 21s. per week for a moderate family, and by ‘very poor’ those who from any cause fall much below this standard. The ‘poor’ are those whose means may be sufficient, but barely sufficient, for decent independent life; the ‘very poor’ those whose means are insufficient for this according to the usual standard of life in this country. The ‘poor’ may be described as living under a struggle to obtain the necessities of life and make both ends meet; while the ‘very poor’ live in a state of chronic want.”

Booth distributed the population of London among the eight classes as follows :—

	Per cent.	
A (lowest) ..	.. 9	In poverty 30·7 per cent.
B (very poor)	.. 7·5	
C & D (poor)	.. 22·3	
E & F (working class, comfortable.)	51·5	In comfort 69·3 per cent.
G & H (middle class and above.)	17·8	

Classes *A* and *B* constitute 8.4 per cent in actual distress, and this percentage will be taken for purposes of comparison with the results of later inquiries. How to deal with class *B* is one of the most difficult questions in Social Economics.

An investigation into conditions in York was made by Rowntree in 1899. He caused every household to be visited, and made more allowance than Booth for differences in the size of a family, recognising that immoderate families might drop into a grade lower than that first indicated by the family income. His classification was in many ways similar to Booth's.

Rowntree's  
Investigation.\*

- A. Total family income under 18s. for a moderate family.
- B. Total family income 18s. and under 21s. for a moderate family.
- C. Total family income 21s. and under 30s. for a moderate family.
- D. Total family income over 30s. for a moderate family.
- E. Domestic servants.
- F. Servant-keeping class.
- G. Persons in public institutions.

By a "moderate family" is here intended a family consisting of father, mother, and from two to four children.† In classifying, allowance was made for families which were smaller or larger than such "moderate" families. Thus, if a family had an income of 22s., and consisted of

\* Rowntree, *Poverty, A Study of Town Life*, 1901.

† According to the 1891 Census, the average number of persons per family in England and Wales was about five persons (4.73). The "moderate family" here taken as a basis for classification allows for a margin of one person above or below this average figure

two parents and four children, they would be placed in class *C*, but if there were five or more children they would be placed in class *B*. Again, if a family had an income of 27s., and consisted of two parents and two children, they would be placed in class *C*, but if there was only one child they would go into class *D*.

Rowntree introduced the important distinction between "primary" and "secondary" poverty. People are living in "primary" poverty if their total income "is insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency;" they are living in "secondary" poverty if their total income "would be sufficient for the maintenance of merely physical efficiency, were it not that some portion of it is absorbed by other expenditure, either useful or wasteful."\* He calculated the cost of what he considered to be the minimum necessities, and for a family of man, wife and three children estimated the "primary" poverty line to be 21s. 8d. In a later work,† written in 1913, allowing for the increased cost of living, he raised the figure to 23s. 9d.

Rowntree came to the conclusion that 15·46 per cent. of the wage-earning class in York, or 9·91 of the total city population, were living in "primary" poverty. After investigating the amounts spent in drink and in other ways "either useful or wasteful," he arrived at the further conclusion that 27·94 per cent. of the wage-earning class or 17·93 per cent. of the population were living in "secondary"

\* *Op. cit.*, Ch. IV.

† *The Way to Industrial Peace and the Problem of Unemployment*. In his *Human Needs of Labour* (1918, p. 129), Rowntree gives 35s. 3d., with prices as at July 1914 as the minimum to satisfy the labourer's needs. But the standard taken here is higher than the poverty line; e.g. 5s. od. is allowed for personal sundries—insurance, recreation, travelling.

poverty. His final conclusion, therefore, is that 43·40 per cent. of the wage-earning class, or 27·84 per cent. of the total population of the city were living in poverty.

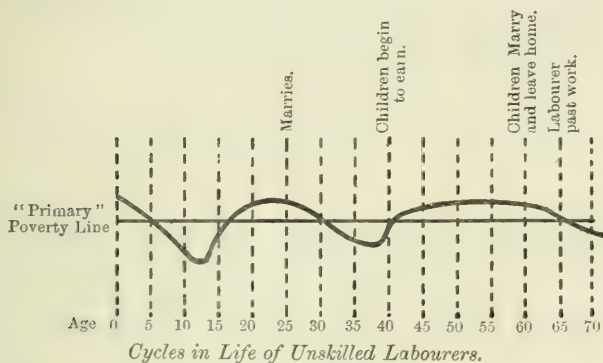
Presumably, if these estimates are correct, two-thirds of the poverty could be reduced merely by a better apportionment of the family income. It is doubtful, however, whether the poverty in the country would actually be reduced by anything near that amount, even if all the undesirable expenditure were eliminated.

At first sight there is a certain resemblance between Booth's figure of 30·7 and Rowntree's estimate of 27·84. But the two results cannot be properly compared, since the respective investigators take different factors into their calculations. It is interesting to conjecture what the estimated proportion for London would have turned out to be, had Booth allowed for the secondary poverty that entered into Rowntree's calculation. The discrepancy in the figures, however, is due not only to the variance in the methods adopted, but also to the difference between conditions in London and in York. Neither of the towns is typical of the country as a whole ; for example, the ratios of rent to total expenditure and the relative costs of the necessities of life are not alike in the two districts. No single town can be typical of the total population.\*

The following diagram taken from Rowntree's work depicts the cycles in the life of an unskilled labourer. It illustrates, incidentally, the variability of a " living wage " for a given worker at different periods in his life. Dr. Bowley demonstrates these changes more specifically. Dealing with conditions in 1912, he estimates that the minimum living wage " at marriage would be 16s. weekly, and would rise gradually to about 25s. in five years and 28s.

\* See article on *The Poverty Figures* by Professor D. H. Macgregor, *Economic Journal*, Vol. XX. (1920) p. 569 *et seq.*

in ten years, provided that there were four children all surviving. It would remain at 28s. for another five years and then fall back to 16s. as the children became self-supporting.”\*



Closely connected with these variations is the incidence of pauperism according to age. This is shown in the graph on p. 22.

In 1912 inquiries were conducted into the social conditions of Reading, and in the following year into those of Northampton, Warrington and Stanley, the aggregate population being a little over a quarter of a million. Random samples of the people of the four towns were taken, the method thus differing from Rowntree's.† The four towns are not claimed to be typical of the whole country, but

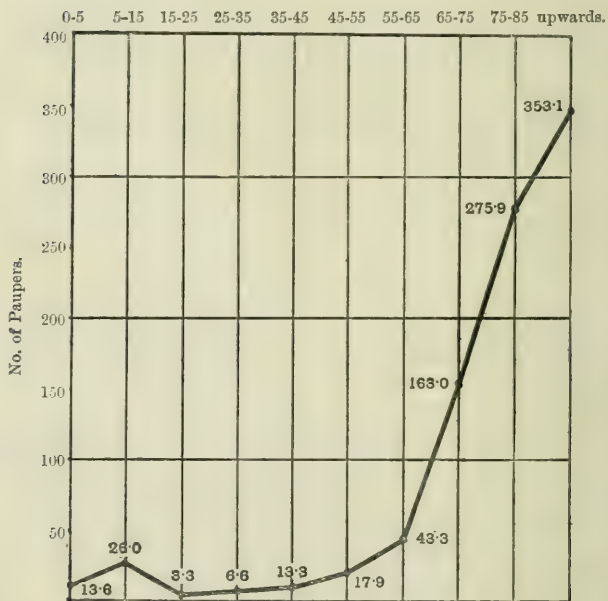
\* *The Measurement of Social Phenomena*, pp. 179-80.

† Bowley and Burnett-Hurst, *Livelihood and Poverty*, 1915.

‡ Dr. Bowley shows (*op. cit.*, Ch. VI.) that sampling is mathematically justified, that it is unlikely to give in the aggregate an incorrect picture of the situation.

they are to a large extent representative of towns ranging between 40,000 and 150,000 in population, while the different types of industrial centre are fairly well repre-

**Census of Paupers, 1906 (England and Wales), showing Age distribution per 1,000 of Population at each Age-period (not including Lunatics in Institutions).\***



sented. " One feature upon which the economic character of a town largely depends is the variety or absence of variety in its industries. Some towns are almost entirely

\* Quoted in Newsholme, *Vital Statistics*, (1923 Edition).

dependent upon one staple industry and the minor industries which are subsidiary to it. Other towns have no predominant trade, but a large number of co-existent and independent trades. Each of these types is represented by two towns among those here described.”\* Northampton (boot and shoe manufacturing) and Stanley (coal-mining) belong to the first type; Warrington and Reading to the second. Further, the differences in economic conditions among the four towns are such that their total population is more or less characteristic of that prevailing in the greater part of industrial England.

In determining the maximim standard of living, Bowley and Burnett-Hurst proceeded on rather different lines. They slightly added to Rowntree's minimum for an adult man, and reduced the minimum for a child. They also laid down different standards for children according to age, whereas Rowntree grouped all children together. They took “primary” poverty only into their calculations. As worked out in percentages, however, the differences between Rowntree's figures for primary poverty and those given by Bowley and Burnett-Hurst are not very great, and the general conclusions may usefully be compared. Grouping York with the towns in their survey, they show that in four towns out of the five, more than a quarter of the adult male workers, and in two towns more than a third, were earning less than 24s. per week, irrespective (apart from York) of loss due to sickness and unemployment.†

The following table‡ shows the relation of households to the poverty line in the four towns respectively. Percen-

\* Bowley and Burnett-Hurst, *op. cit.*, pp. 12-13.

† *Ibid.*, p. 35.

‡ Adapted from fuller table, *ibid.*, p. 39.

tages are given in terms of the "new" standard, not the Rowntree standard.

	North- ampton	Warring- ton	Stanley	Reading
Above standard				
Richer households ..	22'2	5'9	10'9	24'8
Working-class households	69'8	81'3	82'5	57'7
At standard .. ..	'9	'6	'9	—
Below standard .. ..	5'7	12'0	4'8	17'5

The investigators proceed to examine the proportions of the working-class, not the total, population living below the poverty line. They show that in Northampton 1 person in 11, in Warrington 1 in 7, in Stanley 1 in 16, and in Reading more than 1 in 4 of the working classes was living in "primary" poverty. Significant statements are made as to the number of children living in conditions of poverty—demonstrating the comparatively large families of the poorer classes; thus in Northampton about a sixth, in Warrington about a quarter, and in Reading nearly a half of the children were living in households of primary poverty.\*

Bowley and Burnett-Hurst conclude† by deprecating the tendency to minimise the extent of poverty, which, apart from "secondary" poverty, "exists in certain places on a scale which is really appalling." The four towns taken together contain about 2,150 working-class households and 9,720 persons; "of those households 293, or 13½ per cent.—of those persons, 1,567 or 16 per cent.—are living in a condition of primary poverty." The frequent statement that men are personally responsible for their poverty is shown to be grossly exaggerated, inadequate wages being the

\* Bowley and Burnett-Hurst, *op. cit.* pp. 43-5. † *Ibid.*, p. 46-48.

dominating cause. About a quarter of the children in these towns are shown to live in families which have insufficient income to secure a healthy existence.

The causes of poverty may be roughly classified as personal and external. The personal causes include ill-health, old age, large families, intemperance, ignorance, desertion, etc. The external causes include insufficient natural resources, defective economic organisation, industrial rearrangements, war, change in the value of money, etc. Of the two sets of reasons, the external is by far the more important,\* even more significant than at first appears, since many of the so-called personal causes are really the indirect effect of the external. Ill-health and intemperance, for instance, are often the outcome of industrial conditions and therefore cannot be entirely regarded as prime causes of poverty. Bad social conditions, unfavourable environment, inadequate education—these and many other factors serve to intensify the existence of poverty. But they are not fundamental causes; though better housing and town-planning, superior educational facilities, and similar improvements would do much to relieve the situation, they would not go to the root of the problem, which lies mainly in the system of distribution.†

Rowntree showed that over a half of the “primary” poverty in York was a result simply of low wages, quite

\* Dow (*Society and its Problems*, Ch. XX.) puts the respective proportions as 60-75 per cent. “objective” (external) and 25-40 per cent. “subjective” (personal).

† Lists and arrangements of the causes of poverty are legion, some writers submitting upwards of twenty more or less different reasons. Booth, for example, enumerates 23; Dow gives 24. No useful purpose, however, appears to be served by manifold refinement of causes, for poverty is so cumulative in its nature that it is frequently impossible to separate cause and effect.

apart from irregularity of work. Nearly a quarter was due to large families, a seventh to the death of the chief wage-earner, a sixteenth to illness or old-age, and a very small proportion to irregularity of work and unemployment (2·8 and 2·3 per cent. respectively). These proportions are not of course equally applicable to all parts of the country. Conditions too have materially altered since Rowntree made his investigation, rendering revision imperative. The chief causes of "secondary" poverty submitted by Rowntree were, firstly, drink, betting and gambling; secondly, ignorant or careless housekeeping.

#### PRINCIPAL IMMEDIATE CAUSES OF POVERTY.

Immediate Cause.	Percentage of households below the Rowntree Standard.				
	North-ampton.	Warring-ton.	Stanley	Reading	York 1899
Chief wage-earner dead. . . . .	21	6	3	14	27
Chief wage-earner ill or old. . . .	14	1	6	11	10
Chief wage-earner out of work. . .	—	3	—	2	3
Chief wage-earner irregularly employed. . .	—	3	—	4	3
Chief wage-earner regularly employed :—					
Wage insufficient for 3 children.	21	22	1	33	57
3 children or less.	9	38	1	15	
4 children or more.					
Wage sufficient for 3, but family more than 3. . .	35	27	1	21	
Total	100	100	12	100	100

Bowley and Burnett-Hurst give in the above table

the principal causes of poverty in the towns they surveyed. They stress the fact that they are only *immediate* causes, the ultimate causes resting deep in the economic system. To facilitate comparison with Rowntree's conclusions the latter writer's standard is taken. Again the preponderating cause of primary poverty is seen to be insufficient wages. "Actually one-half of the households below the poverty line at Warrington and Reading, nearly one-half at York, and one-third at Northampton, were living in poverty because the wages of the head of the family were so low that he could not support a family of three children or less."\*

The unequal distribution of the social product is responsible for most of the poverty in this country.

**Ill-distribution of Income the Central Fact.** Sir Leo Chiozza Money, writing before the war, calculated that a half of the total income of the country was enjoyed by about 12 per cent. of the population. Even more significant was his estimate that more than a third of the national income went into the pockets of less than a thirtieth of the people.†

In a more recent investigation‡ Prof. Bowley, though a less biased investigator, has also demonstrated that the national income is very unequally distributed among wage-earners and the rest of the community. He shows that, in 1913, 15,200,000 wage-earners shared 35½ per cent. of the total income, whereas 1,190,000 non-wage-earners paying income tax received 47½ per cent., there being an intermediate class of 4,310,000 non-wage-earners not paying income tax who received 17 per cent. In other words,

\* Bowley and Burnett-Hurst, *op. cit.*, p. 41.

† *Riches and Poverty* (10th Edition, 1910), pp. 47-8.

‡ *Change in Distribution of the National Income*, 1880-1913, p.

about three-fourths of the population received little over a third of the total income, while about one-seventeenth

### THE NATIONAL INCOME.

	1880		
	Number of Incomes, ooo's	Income.	
		Amount	Percentage of Total.
Wages .. .. .	12,300	£ million 465	41½
Intermediate* income under £160 .. ..	1,850	130	11½
Income assessed to tax over £160 excluding wage earners ..	620	530	47
Totals .. .. .	14,770	1,125	100

	1913		
	Number of Incomes, ooo's.	Income.	
		Amount.	Percentage of Total.
Wages .. .. .	15,200	£ million 770	35½
Intermediate* income under £160 .. ..	4,310	365	17
Income assessed to tax over £160 excluding wage earners ..	1,190	1,030	47½
Totals .. .. .	20,700	2,165	100

\* *I.e.* the income tax exemption limit before the war. The "Intermediate" class denotes non-earners who were not liable to income tax.

received nearly a half. Bowley shows that since 1880 the proportion taken by the income-tax-paying non-wage-earning classes had increased its share by  $5\frac{1}{2}$  per cent. Thus in the intervening 33 years the wage-earners, despite the fact that their actual receipts had increased by about a third, suffered a reduction in their share of the total income (which had nearly doubled) by 6 per cent. These classifications are naturally very arbitrary, and the proportions should not be interpreted too rigidly. But every latitude being allowed, the shares of the different classes give food for thought.

Professor Bowley proceeds to demonstrate that the proportions that went to property and to services of all kinds (though the latter category embraces more people than the wage-earners only) remained the same in 1913 as in 1880, namely  $37\frac{1}{2}$  per cent. to property and  $62\frac{1}{2}$  per cent. to services.

Sir Josiah Stamp's findings are in many ways similar.\* He states that in 1914 about 8 per cent. of the total income went to less than one-tenth of 1 per cent. of the people. The next 22 per cent. of the total income went to about 1 per cent. of the people, and the next 15 per cent. of the total income to  $4\frac{1}{2}$  per cent. of the people. Altogether 45 per cent. of the national dividend went to about  $5\frac{1}{2}$  per cent. of the population. He submits, however, that "although all classes may have become better off, they have kept their relative positions and proportions with remarkable stability so far as we can test." The same writer computes that in 1919 about one-twelfth of the total income was enjoyed by about one 480th of the people, and one-half of the income by between one-ninth and one-tenth of the people.†

\* *Wealth and Taxable Capacity*, 1922, p. 87.

† *Ibid.*, p. 95. Taxation, of course, modifies these proportions, but the disparity remains considerable.

It has been endeavoured in the preceding pages to indicate the extent and some of the causes of poverty, so far as one can judge from the few scientific inquiries that have yet been made. The chapter has been confined largely to a cold summary of the conclusions of the different investigators, no attempt having been made to describe the facts of poverty which are all too evident to anybody who cares to look around him. The nature and the meaning of poverty are best studied, not in wordy narrative, but in the actual manifestations in the slums and the casual wards. But observation, however sympathetic, of the miserable conditions in which a large proportion of the people exist does not of itself point to the cause of the evil. Even elaborate statistical inquiries, such as those outlined above, only touch the surface of the problem. Study of the outward effects of poverty is but a preliminary to the more difficult yet more important examination of its sources. The simple statement that poverty is mainly the result of unequal distribution does not carry one very far, and further inquiry into the industrial system is essential if one is to probe and endeavour to remove the roots of the evil.

## CHAPTER III.

### THE WAGES OF LABOUR.

#### § I. THE SUPPLY OF LABOUR.

**Population  
and the  
Supply of  
Labour.**

Fundamental to all social problems is the question of population. The growth in the numbers of the people, meaning on the one hand an increase in productive force, on the other an increase in number of mouths to be fed, has given rise to much speculation as to future conditions. The name of Malthus is closely associated with the subject of population, and though it is over a century ago since he enunciated his famous doctrine, his views, with certain modifications, are still widely held.\*

Malthus wrote at a time when the economic and social conditions of the country were undergoing a rapid change. The revolutionary views prevalent at the time were reflected in the writings of many contemporaries who were sometimes prone to under-estimate the hard facts of life. Godwin, for instance, wrote a work on the equality of man. Having to face the question of a growing population pressing on food supplies, he contended that mind would one day become omnipotent over matter. Malthus, in his *Essay on the Principle of Population*, 1798, criticised these

\* Most of Malthus's ideas had been anticipated by previous thinkers, but he was the first to present the facts and principles in a clear and co-ordinated form. See C. E. Stangeland, *Pre-Malthusian Doctrines of Population*.

writers as visionary, and maintained that they played too lightly with the vital question of subsistence. He held that any increase in the material welfare of the people must necessarily be followed by an addition to the population, which, in view of the limited bounty of nature, must in turn lead to a reduction in the standard of life. In the first edition of his work he stated, that "population, when unchecked, increases in a geometrical ratio, subsistence increases only in an arithmetical ratio."\* The population, he submitted, would tend to double itself every twenty-five years. But, he went on to say, "by that law of our nature which makes food necessary, the effects of these two unequal powers must be kept equal." Population is restricted, he said, by the relentless pressure of nature's limited resources, and also by vice.

In his second edition (1803) Malthus was rather less dogmatic; realising that his mathematical presentation was not strictly true, he practically abandoned the use of the geometrical and arithmetical progressions, and contented himself with the simple statement of the law that population increases at a faster rate than food. In this edition, too, he added another "check" to the growth of population—moral restraint. His "checks" now fell into two categories, the "positive check," working through a high death rate, and the "preventive check," operating through a low birth rate. In the former class are disease, famine and war; in the latter are vice and intelligent restraint.

Malthus's law of population is linked up with the tendency known in economics as the law of diminishing

\* In a geometrical progression the number increases through the *multiplication* by the given factor, whereas in a mathematical progression the number increases through the *addition* of the given factor. Thus, if 2 is taken as the factor, the geometrical progression would be (say) 10, 20, 40, 80, etc.; the arithmetical progression would be 10, 12, 14, 16, etc.

returns to land. After a point, applications of capital and labour to land result in a less than proportional return ; in other words, there is a tendency for agricultural output to increase at a slower rate than the capital and labour applied to land. If diminishing returns did not operate, Malthus's theory would be meaningless, since an increase in population would cause a proportional addition to food supplies, and the reduction in the standard of living feared by Malthus would therefore not come about.

Thus there are two supplementary methods of approach to the problem of population. One is concerned primarily with the growth of population, the other deals with the rate of food production and the possibility of increasing it at least as quickly as the rate of population. The question of food supplies may be considered first.

The problem of increasing the means of subsistence in proportion to the growth of population resolves itself into that of countering the tendency to diminishing returns. Economic history is largely a record of the contest of man with the "stinginess" of nature. The struggle has not been uniform : sometimes, as during the nineteenth century in England, man has appeared to be supremely dominant ; at other times, as now, according to some writers, man's advantage is not so pronounced, and he has to labour hard to make ends meet. Malthus did not appreciate the power of man's ingenuity nor did he foresee the discoveries of the nineteenth century that, for the time at any rate, relieved the pressure on food supplies. The adage that "necessity is the mother of invention" was amply proved, showing that in invention, employing the term in its broadest sense, lies man's greatest hope of coping with the population problem. Since Malthus's time, the discovery of new wheat lands and of new

**Increasing  
Food Supplies:  
Invention and  
Organisation.**

foods, the application of new sources of power and the use of new processes, the improvements in methods of transport and communication, the rise of an efficient mechanism of exchange—all have led to a better industrial organisation, which tends to substitute increasing for diminishing returns.

The problem of population turns principally on organisation. Britain's population at the end of the nineteenth century was about ten times what it was in Elizabeth's time, yet the country was, in a sense, less over-populated in the later than in the earlier period. So-called over-population is frequently a matter of under-organisation. Increase in numbers makes a thorough division of labour more possible, and the production of goods per head, instead of diminishing as the pessimist expects, actually increases.

Sir William Beveridge has shown that from the epoch 1854-64 to the epoch 1905-13 the coal production per head in the United Kingdom increased from 2.6 to 5.9 tons, the pig-iron production 2.7 to 4.3 cwts., the raw cotton consumption from 28.1 to 42.2 lbs., and the raw wool consumption from about 10 to 12.6 lbs. Real wages increased from 60.7 to 101.0 (on the basis, 1913=100).<sup>\*</sup> It is true of course that so far as food production is concerned, Britain does not produce sufficient for her requirements. About 80 per cent. of the wheat and 40 per cent. of the meat consumed in this country comes from abroad. But it is a commonplace in economics that an industrial country such as Britain, by specialising in the production of other articles in the production of which she has a greater relative advantage, is able to exchange her products for a

<sup>\*</sup> *The Economic Journal*, Dec. 1923, p. 462. Similar increases are demonstrated in the case of shipbuilding, exports, and the consumption of food and drink.

greater amount of food and raw materials than she would economically be able to produce for herself.

All this does not mean that the growth of population can be left to look after itself. Increasing the food supplies is only one factor in the problem. The operation of the different checks, affecting both the quantity and the quality of the population, needs equal consideration.

The preventive check, meaning a low birth rate, is more humane than the positive check, with its high death rate. The birth rate in England and Wales is little over a half of what it was fifty years ago, as is shown in the following table :\*

### ENGLAND AND WALES

Per 1,000.

Years.	Average Annual Birth Rate.	Average Annual Death Rate.	Average Annual Infant Mortality.
1871-1880	35.4	21.4	149
1881-1890	32.4	19.1	142
1891-1900	29.9	18.2	153
1901-1910	27.2	15.4	128
1911-1915	23.6	14.3†	110
1916-1920	20.1	14.5†	91

In conditions where a high birth rate leads almost inevitably to a high death rate, the solution to the problem lies largely in the curtailment of the number of births. The birth rate in India is nearly double that in England and Wales ; but as the death rate there is more than double that in this country, the survival rate (*i.e.* the difference

\* Report of Chief Officer of Health, 1920 (Cmd. 1397).

† Civilian population only.

between the birth rate and the death rate) is appreciably higher in England and Wales than in India.\*

The standard of life plays an important part in the growth of population. The more advanced a community, the greater is the insistence on a recognised standard of living. There is no absolute standard; as will be shown more fully later, it varies from class to class, and for the same class from time to time. But though not strictly determinate, it serves as a check on the increase of population. When people are living on the verge of starvation, foresight and restraint are weak. Birth control is more common in more prosperous families. Paradoxical though it may seem, an improvement in the standard of life, by strengthening the will to retain and even advance that standard, tends up to a point to restrict the rate of increase. The poorer classes have, on the average, larger families than the well-to-do classes, *i.e.* the rate of increase varies inversely with the power of maintenance.† While the main reason for the small family is the desire to main-

\* See H. Cox, *The Problem of Population*, pp. 26-7.

† The following table by Bertillon (quoted in Bailey : *Modern Social Conditions*, p. 110) is interesting in this connection. It shows that on the average the very poor have about two or three times as many children as the very rich.

*Births per 1,000 Women.*

	Paris.	Berlin.	Vienna.	London.
Very Poor .. ..	108	157	200	147
Poor .. ..	95	129	104	140
Comfortable .. ..	72	114	155	107
Very Comfortable .. ..	65	96	153	107
Rich .. ..	53	63	107	87
Very Rich .. ..	34	47	71	63
Total .. ..	80	102	153	109

tain the children in a standard of life at least as high as that enjoyed by the parents, contributory factors are the age at which the different classes attain their maximum earning capacity, and the age at which they marry. The unskilled worker can reach his highest earning power early in life—even in his 'teens. The more skilled and better-paid workers have a longer time to wait, while some people, "professional" workers for example, do not reach their full earning power until life is fairly advanced. The age of maximum earning capacity naturally affects the marrying age and therefore the number of children.

Emigration is often advocated as a means of solving the population problem. It is true that while some countries have an extremely dense population, which cannot apparently be maintained in a decent standard of life, other countries are very sparsely populated and are crying out for immigrants. Between such countries a flow of population might take place with advantage. Many contend at the present time that the emigration from this country to the Colonies should be increased, in order to reduce the "surplus" of labour here, and to distribute the world's population more equally.

Some writers maintain however that a reasonable flow of population from a country does not necessarily in the long run reduce its population, while a constant flow into a country need not over a period increase the population. This apparent inconsistency is explained by the Malthusian argument. Reduction in the population lightens the pressure on the means of subsistence, the struggle for livelihood is not so intense, and with an increase in the birth rate and a fall in the death rate, the reduction is soon balanced. On the other hand, immigration increases the pressure on subsistence and makes the check on population more effective.\*

\* Cf. Fairchild, *Applied Sociology*, pp. 217-18.

In any case, emigration cannot be depended upon as a final solution. To particular countries it might give a degree of relief, but as the population of the world increases, resort must be made to other methods.

The last, and perhaps the most important, of all these considerations is the aspect of quality rather than mere quantity of population. Too much attention has been focussed in the past on numbers ; too little on the health, efficiency and happiness of the people.\* It is better to have limited numbers of a high quality than a large population of whom a vast proportion must die in the unequal struggle for life. While modern industrial methods and the social environment do not always make for improved health, there has been on the whole a distinct advance in the quality of the people during the last century. The birth rate has fallen, but so has the death rate. Medical science, along with better sanitation and hygiene, is steadily raising the quality of the people.

Certain authorities pin their faith to "Eugenics" as a means of improving the quality of the population. They would apply the laws of heredity with the two-fold object of preventing procreation on the part of certain people, and encouraging it on the part of others. The first or "negative" method is to exercise a control, if possible, over the marriage of the seriously diseased, feeble-minded or otherwise defective. Failing this, some eugenists advocate

\* The military view of population has not been considered in these pages, though it has many adherents in some countries. The French population is at a standstill, while the German population continues to grow. The French patriot deplores the situation and seeks means to stimulate the birth rate. It is questionable whether such a policy is justifiable from the purely economic standpoint—but so long as a war threatens, one cannot expect public policy always to put well-being before defence.

compulsory segregation or even sterilisation of the unfit. The second or "positive" method, designed to enhance the quality of the race, takes the form of bonuses on children born of certain types of parents, taxes on "fit" persons who refuse to procreate, and such other means. So far, however, our biological knowledge is very limited, and even if the eugenists offer physical proof of their contentions, they are sure to encounter continued opposition on moral grounds. Eugenics does not seem to hold out any promise of relief and improvement for the immediate future.

The problem of population and food has come into prominence in recent years. New countries that hitherto exported a large amount of their food products to the older industrial countries are gradually increasing their own population and reducing the proportion of their food exports. The United States, for example, is consuming a growing share of the grain produced within its own boundaries. Again, the relief offered by a diminishing birth rate is partly offset by the declining death rate, for the extension of human life has to be accompanied by a corresponding advance in the quantity of food produced.

The prospects, however, are not as gloomy as the pessimists would have us believe. Even with the existing methods of production, the food supplies of the world for many generations to come would appear to be adequate to the needs. Misery and starvation are mainly the result of an inadequate industrial organisation and an unsatisfactory mode of distributing the income of the community. Improvements in the social structure would immediately remove many of the ills usually attributed to overpopulation. As for the methods and quantity of production, the Industrial Revolution did not exhaust man's inventiveness, and one may reasonably expect further

progress in our economic organisation, permitting of an increase in the world's population, yet accompanied by a general advance in the standard of life.\*

In dealing with the supply of labour, reference must also be made to the problems arising out of its relative "immobility," *i.e.* the difficulty of moving labour from one purpose or direction to another. The supply of capital, for example, does not present the same problem. Some forms of capital are very "fluid." Thus a slight movement in the rate of discount will cause money, the most mobile form of capital, to flow from one continent to another. Other kinds of capital are less mobile, and apart from their value as scrap can only be used for the purposes for which they were originally produced, *e.g.* power-looms, lithographic machines. There is a third and intermediate class of capital, which, though not perfectly mobile, is adaptable for alternative uses; thus the lathes employed during the war for turning shells were adapted with little alteration to making such articles as sewing-machine parts. Capital as a whole, however, is fairly mobile if compared with labour. Whereas capital (apart from "personal" capital) is a concrete thing, labour is vested in the individual, and its sale and transfer involve peculiar difficulties. The "human element" necessarily plays a dominant part in all matters affecting labour.

\* An interesting forecast of the future population of Great Britain is made by Dr. A. L. Bowley in Part IV. of *Is Unemployment Inevitable?* (1924). Dr. Bowley submits that, provided the emigration continues at the same rate as in the decade before the 1911 Census, the proportion of the population between 15 and 65 will increase by about 1,500,000 in the decade 1921-31, but will then diminish by about 200,000 in the decade 1931-41. With special reference to unemployment, he suggests that the problem fifteen years hence will be an insufficiency rather than a surplus of labour.

There is no general remedy for the comparative immobility of labour. Several forms of immobility can be distinguished, and each requires a more or less different treatment. The principal obstacles to a perfect flow of labour, and the possible means of coping with them, may be briefly outlined.

(1) *Geographical*. The obstacle of distance is still appreciable, though it is not so formidable as in the past. There is a tendency for most people to live and work in the district in which they are reared, but with improvements in the means of communication and transport, the barriers are getting weaker. The railways, the postal service and the newspapers have done much to effect this. Movement between countries, however, is still rather sluggish, language and other difficulties here becoming pronounced. This form of geographical immobility is more manifest in an island community like Britain, for the flow of labour between this country and the rest of Europe is more difficult than that between the several states on the mainland. Frequently, however, geographical immobility is closely bound up with other considerations—personal and sentimental reasons, ignorance, cost of movement, etc. These are considered separately.

(2) *Personal*. The personal factor in the mobility of labour is too obvious to need lengthy comment. Family, sentimental and patriotic ties bind labour to a particular sphere, whereas their effect on a movement of capital would be practically nil. A man may refuse to change his job for a better one if it means moving to an environment away from the friends and surroundings to which he has become attached.

(3) *Ignorance*. This is an important factor which bars mobility from the beginning of a worker's industrial life. The parents of a boy just leaving school may be ignorant

of the best avenue for him to take, and may put him into a job which affords no development of the boy's faculties at this vital time of life, and offers but little prospect of advancement. (Too frequently, however, parents are driven by necessity to place their children in blind-alley occupations; the obstacle here is one of cost, which is discussed below.) Further, the worker may be ignorant of better conditions elsewhere. Instances are numerous in which people in an industry covered by a Trade Board work for lower wages than the legal minimum, not simply because they are refused work at the legal rates, but because they do not know that these rates are enforceable.

The obstacles to mobility due to ignorance on the part of parents can be largely overcome by State and municipal guidance. "After-care" and similar schemes indicate a growing social responsibility for the juveniles passing from the years of compulsory education. Ignorance on the part of the workers themselves is now met in some degree by employment exchanges and, in certain instances, trade unions. The exchanges have done valuable work in giving information, and also in breaking down the geographical barrier. Some trade unions (*e.g.* the draughtsmen's organisation) have a systematic arrangement for collecting and imparting to their members information of vacancies. While this activity cannot be considered a primary function of trade unionism (it would hardly be practicable in some unions), it does help to overcome the obstacle of ignorance.

(4) *Cost of Movement.* More than one type of this obstacle can be distinguished. Firstly, there is the obvious cost of moving one's self, family and belongings from one place to another. This item is often so high as to keep a man to one district though he knows he could materially improve

his position elsewhere, if he could only bear the initial expense. Secondly, there is the cost of training for a post in a higher grade or for one in a different sphere altogether. To the actual expense of training there must be added of course that of maintaining self and family throughout the period. To move from place to place, but keeping in the same trade, is a relatively simple matter. But movement from a lower grade to a higher grade, or from one occupation to another, is more difficult and expensive. Employment exchanges are helpful in dealing with the former kind of immobility, but the latter type needs a more fundamental remedy.

Then, further, there is the cost on the part of parents who wish to give their children a good start in life. As mentioned in (3), parents may be well aware of the best course for their children to take, but are driven by lack of means to put them into a job which will bring in a few shillings right away, though it offers no prospect of advancement. Apprenticeship and similar schemes involve a certain expense, which many parents, though not lacking in self-denial, are unable to afford. Progress has been made in recent years in free technical education, and it is anticipated that this useful adjunct of general education will be further extended. Though they might involve a large financial outlay at the beginning, such measures must ultimately prove economical, for every child whose potentialities are not fully developed, let alone if they are allowed to run to waste, means so much loss to the community. From a strictly economic, as well as from the social, moral, and political standpoints, it is desirable that the cost of proper training, if beyond the means of the parents, should be borne by the community.

(5) *Custom and Tradition.* These still play a large part in governing economic conditions. The movement of

female labour, for instance, into certain trades and professions is still impeded by the custom of regarding these occupations as the "rightful" preserve of men. This is particularly true of the older trades and professions, and consequently women tend to concentrate in the newer occupations, where custom and tradition have not so far had any material influence. Teaching and typing furnish instances of this crowding, with resultant low rates of pay.\*

(6) *Artificial Restrictions* The barriers of wealth and social position are fortunately becoming weaker, though they cannot yet be ignored. The expense of entering, say, the legal or medical profession is much too high to make merit the only standard. Qualification on an ability basis is, of course, very necessary in the public interest, and is gradually being extended to the so-called "manual" trades.

In a somewhat similar category are the impediments to entering a trade fixed by certain trade unions. Where the restrictions are imposed with a view to ensuring good quality of workmanship they are all to the good. And a strong case can be adduced in favour of these restrictions where the aim of the trade unionist is to maintain a reasonable standard of life, which might be undermined if free access to the trade were open to everybody. The situation becomes irksome, however, where the professional organisation or the trade union abuses its monopolist position, and so restricts its membership as to secure reward in obvious excess of the social utility of the service rendered, or to exclude persons from membership when their employment in the occupation concerned would be of general advantage to the community.

Artificial restrictions on mobility are sometimes imposed by employers' federations who keep a "black-list" of workers

\* See p. 132.

who, through trade union or political activity, have fallen out of favour with the employers. The "black-list" is so effective in some trades, *e.g.* engineering, that a man may have to leave the district or even emigrate to secure work, even though there is employment to be found at home. "Suspending" a man, but not giving him a proper discharge, may also hinder mobility for an appreciable time.

On the other hand, restrictions are occasionally imposed by the employees' organisation. Several education authorities, for instance, have at various times been "black-listed" by the teachers' union, on grounds of unsatisfactory remuneration or working conditions. While the union has not the power to prevent teachers entering, if they wish, the service of these bodies, the warning against such authorities has been successful more often than not.

(7) *Specialisation.* But doubtless the biggest obstacle of all to the free movement of labour is the specialisation of labour, which is becoming more intense every year. The economic activities of the community have been divided into separate industries and callings, industries have been divided into processes, processes into part-processes, and these part-processes even further sub-divided. A man who has been engaged for years on a single operation, may find, in the event of being discharged, that he is fitted for no other occupation. In this respect the skilled worker may be comparatively worse off than the unskilled. If the former has been engaged on some difficult and complex task which is now being performed by machinery, he will seldom find other employment similar to that from which he has been discharged. But the less skilled worker might not be in the same difficulty. Tending one machine, especially if it is of the "automatic" variety, is not very different from tending another.

Indeed it has been contended that, the more advanced the specialisation, the *easier* does the mobility of labour become. For instance, if a slump occurs in the watch-making trade, a discharged worker who has been engaged on the delicate mechanism might find somewhat similar employment in (say) the scientific instrument trade; and *vice versa*. The more mechanical the operation, the easier and quicker it is to transfer one's labour to it. But in the present state of industry, it is doubtful whether this mobility counts for much against the many factors making for immobility. The tendency to mobility through simplification of operations has to be recognised, and in the future, when machinery will play a still larger part, it may be more important than it is now. But even then there will be several specialised occupations between which labour will be very immobile.\*

## § 2. THEORIES OF WAGES.

Whatever the ethics of the matter, labour is bought and sold like any ordinary commodity; "supply and demand" are the principal determinants of the value of a man's services as of the value of wheat. There are certain peculiarities, however, in the demand for and supply of labour that prevent a straightforward "law" of wages being formulated. The qualifying phrase "other things being equal" is never so prominent as in a discussion on wages.

(a) One obvious difference between labour and material commodities is that the former is inseparable from the worker himself. Labour is not inert like the ordinary commodity bought and sold, and the human element is necessarily prominent in all dealings affecting its price.

\* For a full analysis of the question of the mobility of labour, see Pigou, *Economics of Welfare*, pp. 111-148 (1920 Edition).

(b) Since labour cannot be delivered except in person, the worker is concerned with the conditions in which his labour is employed. A man who sells a piano does not trouble about the environment of the article or the manner in which it is used. But the labourer is naturally anxious that his working conditions should be as satisfactory as possible.

(c) "Labour will not keep." It is, as it were, the most perishable of all commodities. A man cannot as a rule abstain from working one day in the surety that he will make up for lost time by doing twice as much the following day. (This does not apply of course to those circumstances in which rest from work has a recuperative effect, and increases a man's efficiency.) This peculiarity, shared only to a limited extent by ordinary commodities, often prevents a worker from getting the best price for his wares, as he cannot store his "goods" for a better market.

(d) As shown above, labour, compared with most commodities, is very immobile. Whereas a better price will soon cause a flow of material goods from one direction to another, better wages will not have the same immediate effect on labour, whose mobility is hindered for a variety of reasons.

(e) The supply of labour is comparatively fixed for a fairly long period. Special training may increase the supply of particular kinds of labour, but an increase in the total supply depends on the growth of population. This, combined with the relative immobility of labour, helps to prolong the period of high earning in one trade compared with another. Conversely, an over-supply of labour in a trade may cause very low wages yet no immediate drift of labour from that trade to another. What the economist terms a "quasi-rent" or a surplus element in income, *i.e.* a reward over and above the minimum necessary to in-

duce the supply of the particular unit, is sometimes very pronounced. If many years' training is necessary to provide a service that suddenly comes into great demand, the people who can supply this service receive a remuneration in excess of what would be considered the normal rate.

(f) Lastly, in selling his labour, a worker is at a disadvantage in dealing with the employer. If the latter employs a hundred men, he is equal in bargaining power to all the hundred combined. Hence the rise of trade unions, which, by collective bargaining, put the employer and the employed on a more equal footing, and so help to restore the balance of power.

It is important to distinguish between the nominal expenses and the real cost of labour. Enlightened employers are recognising that it does not always pay, even in the narrowest sense, to give wages inadequate to ensure a standard of maximum efficiency. A well-known motor-car manufacturer pays far higher wages than his competitors, yet his product sells for a much lower price. The reason is intense organisation of the business and high efficiency of the workers, who are allocated to the tasks for which they are best fitted. The product per worker is so great that, notwithstanding the high expense, the real cost of labour is relatively low. Experience of minimum wage legislation for the sweated trades has abundantly shown that the real cost of labour has not increased in nearly the same degree as the nominal wages bill. In some cases the better nourishment and environment of the worker has led to an actual decline in the real cost, proving that "low wages are dear wages." It will be observed in the following pages that the earlier theories of wages (particularly that of the wages fund) either ignored or paid insufficient regard to this important distinction.

**The Real  
Cost of  
Labour.**

In a sense, labour and capital compete with each other for employment by the entrepreneur. If the employer finds that a machine will do a certain class of work more cheaply than ordinary labour, some workers will be partly displaced or be compelled to accept a lower wage. This application of the "law of substitution" is constantly in operation. The efficient employer endeavours to find just that proportion of capital and labour which renders him the best return.

The wages of labour are influenced to a certain extent by the proportion they bear to the interest on capital and other standing charges. In one industry the ratio of the wages bill to the total expenditure may be very high, as for example in the coal-mining industry. In another the ratio may be smaller, as in the cotton industry. Other conditions remaining the same, a demand for higher wages in the coal-mining industry is less likely to be successful than a similar demand in the cotton industry, since the extra burden in the first case would be greater proportionately than in the second. Numerous other considerations might arise to reduce or nullify this particular influence, but its existence should not be disregarded.

The investigation of the factors governing wages falls into two parts. Firstly there is the question of *relative* wages, viz., what determines the rates of wages as between one class of labour and another? Secondly there is the problem of *general* wages, viz., what determines the share of the national dividend that goes to labour as a whole? To a large extent these questions merge into one. An answer to the second provides a part, if not whole, answer to the first.

Adam Smith\* submitted that wages varied from trade

\* *Wealth of Nations, Book I.*

to trade for the following reasons : (i) the agreeableness or disagreeableness of the employments, (ii) the easiness or cheapness of learning them, (iii) the regularity of employment, (iv) the trust to be reposed and (v) the possibility of success. These reasons still hold true, but they do not offer a thorough explanation. If (ii) is taken to include the immobility of labour, the reasoning is more complete, for if there were no hindrances to a perfect flow of labour from one quarter to another, there would not be the serious differences in remuneration one now finds.

Since Smith wrote, trade unions and employers' federations have grown to such a degree that the rate of wages now depends very largely on the bargaining power of the parties. Again, Smith did not attribute sufficient importance to the power of custom and tradition in determining rates of payment. There is no doubt that people become habituated to certain differences in the rates of pay as between one class of labour and another, and that these rates may continue even though they do not necessarily represent the ratio of respective worth to the employer. The force of custom may prevent a man from getting his proper share of the product. For many years the wages of the semi-skilled labourer were considerably lower than those of the skilled artisan. It is certain that the differences in wages were not always due to differences in productivity. Bargaining power and custom had much to do with the respective rates of pay.

It is interesting to observe that during and since the war, the gap between the earnings of the semi-skilled and skilled has been appreciably reduced. This "levelling-up" of earnings is due to the improved organisation and bargaining power of the semi-skilled, to the weakening of custom in these exceptional years, and to the recognition that, with the development of machinery, the line between

the skilled and the semi-skilled is not so clearly defined as it was often thought to be.

But these considerations do not go to the root of the main problem as to what determines the share of the social product that goes to labour as a whole. Explanation of the factors regulating relative wages does not inform one of the principles underlying and determining general wages. As stated above, a solution to the latter question would help in a solution of many of the difficulties presented by the former. Analysis of the main problem, however, would involve inquiry into the whole of the economics of distribution, and this would demand far wider treatment than can be afforded in these pages. It is only possible to outline the several attempts at an explanation of wages, not in order to present a proper account of these theories, but merely to indicate the many aspects of the problem. It will be seen that while a particular theory is rejected on this or that ground, there may still remain in it an important element of truth which no final theory can afford to ignore.

An early wages theory was that the reward of labour tended to equal the sum necessary to procure the means of bare subsistence. By this was meant the minimum amount necessary to keep the worker in physical efficiency, together with the irreducible amount required to bring up a family of producers-to-be. The subsistence theory was in vogue among the Physiocrats and the Classical School, and was restated about the middle of last century by German socialists. It became known as the Iron or Brazen Law of Wages. Influenced by the Malthusian doctrine, it assumed an almost automatic expansion or contraction of population. Should the wage move above subsistence level the workers would have

**General  
Wages.**

**The  
Subsistence  
Theory of  
Wages.**

more children, and the ultimate competition for employment would force wages down. Should the wage fall below subsistence level, population would diminish and wages would rise.

The subsistence theory appears to be partly borne out by the record of such countries as India and Egypt, but it does not offer a satisfactory explanation of conditions in Europe and the "new" countries. Real wages in Britain have considerably increased during the last hundred years. What used to be considered a comfort or even a luxury may now rank among the conventional necessities of life, and be included in the "subsistence" estimate. The assumption that population automatically increases with a rise in wages is not warrantable in all cases, for together with a rise in real incomes there has been on the average a pronounced falling-off in the birth-rate.

The theory is further disproved by the action of trade unions, which have undoubtedly helped in raising the wage-earners' income. Nor does it account for the disparities in wages among different classes of workers, whose "subsistence" cannot be said to vary in the same degree as their wages. But the most serious drawback to the subsistence theory is its failure to recognise the importance of demand in determining the rate of payment. The productivity of labour necessarily has great bearing on its remuneration, and no theory working from the supply side only can give a satisfactory explanation of values in general, or of wages in particular.

Yet the element of truth in the theory must not be overlooked. It cannot be denied that, in the absence of any resisting power, the wages of labour may drop to bare subsistence level, or, for a period, even below. The conditions of labour early in the 19th century were such as to give the theory more than a semblance of truth.

Even at the present time the wages of many workers are little, if at all, above the minimum necessary to provide a bare existence. The subsistence theory of itself is not a correct explanation of the forces determining wages. But obviously the rate of wages cannot permanently be below subsistence. The minimum level has therefore been indicated. The maximum has yet to be considered.

With the Industrial Revolution the importance of capital as a factor of production increased enormously, and certain economists, in their desire to recognise the added significance of capital, tended to magnify its real importance. J. S. Mill developed a theory of wages which stated in effect that the reward of labour was paid out of "circulating" capital, that there was a pre-determined fund from which the workers could be paid. This fund constituted the demand for labour. The number of labourers composed the supply of labour, and any increase in the number of workers would eventually reduce the share going to each. (The influence of the Malthusian doctrine of population was therefore still marked.) "Wages depend mainly upon . . . the proportion between population and capital . . . Wages not only depend on the relative amount of capital and labour, but cannot, under the rule of competition, be affected by anything else. Wages, meaning of course the general rate, cannot rise but by an increase in the aggregate funds employed in hiring labour, or a diminution in the number of competitors for hire ; nor fall, except either by a diminution of the funds devoted to paying labour, or by an increase in the number of labourers to be paid."\*

According to this theory, an increase in wages for a particular class of workers would only be possible at the

\**Principles of Political Economy*, Bk. II., Ch. XI., § 1.

expense either of other people's wages or of profits. An increase in wages in one industry would attract new labour from other industries, and thus, by the greater competition for employment, would force the wages down again. Or a fall in wages would be caused when the alleged increase in population, following the better standard of living, increased the number of competitors for employment. An increase in *all* wages would be entirely at the expense of profits. Consequently it used to be argued that if by trade union or other action wages were increased, other workers would suffer, or, if the increase came out of profits, capital would be driven out of the industry, the demand for labour would fall in consequence, and wages would be reduced to the original level. The wages fund theory therefore was as pessimistic as the subsistence theory to which it shows a certain resemblance.

This theory, which Mill himself renounced in later years, is now generally abandoned, though one frequently comes across echoes of the belief that an increase in the wages of one class of workers must *necessarily* be at the expense of other workers. That this is true in particular circumstances is not denied. The main criticism of the theory is that it ignores the possibility of increased wages leading to greater efficiency, either in the worker himself or in the organisation of the business, and therefore to a greater output. It confuses the expenses of labour with the real cost of labour. Extra remuneration may come, not from other people's wages or from profits, but from greater productivity. Experience of the Trade Board system has shown that the better wages have in some cases improved the physique and efficiency, and therefore the output of the worker ; in other cases they have impelled the employer to re-organise the methods of production and cut down waste to a minimum.

Even where the increase in wages comes out of profits, the assumption that capital will be driven out of the industry is not always true. Firstly, capital is not so mobile as the theory assumes, some forms being almost impossible to divert to other uses. In the long run, however, if the rate of profits fell below normal the absence of fresh investment would bring about a shortage of capital in the particular industry. But, secondly, where the profits have been above normal, wages might be increased at their expense, yet leave sufficient inducement for new capital to be invested, provided that the encroachment on profits does not bring the rate below that prevailing in other industries of a similar character. Thirdly, the addition to the wages bill may be made up by raising the price of the product. The extent to which the ultimate burden falls on the worker himself depends on the character of the article. Obviously a rise in the price of wheat consequent on higher wages would rebound more on the workers as a class than an increase for the same reason in the price of motor cars. Through increased prices the non-wage-earning classes can bear, and have already borne, part of the incidence of higher wages.

The theory is fallacious in assuming that increased wages inevitably cause an increase in population ; this is contrary to general experience. It also assumes falsely that better wages in one trade cause a flow of labour from another ; labour is not so mobile and adaptable as is here implied. Further, the wages fund theory as a complete explanation is disproved by actual experience. Wages may be higher in "new" countries, where the amount of capital is relatively small, than in "old" countries, where capital is plentiful. The average rate of wages is higher in the United States than in Great Britain, not because there is a greater capital fund there than here, but for several other reasons, prominent

among which is the superior organisation and productivity of industry. Experience further shows that profits and wages have frequently risen together, and not one at the expense of the other as this theory would suggest.

Where goods are being continuously produced under steady conditions, it may be argued that the capital available for the payment of wages in the present is the money received for identical goods produced in the past and now being sold. To this extent the wages fund theory is true. But many new goods are daily produced in anticipation of a market without a corresponding inflow from the sale of other goods, and the wages are an advance payment based on the estimates of future sales. Of course the money used for paying the wages is regarded as capital, but the essential fact is that the amount of capital is not necessarily pre-determined by past production.

Bank credits play an increasing part in financing industry, and the fund of capital becomes extremely elastic. A wages fund which can be expanded according to the prospects of future sales ceases to be the fixed fund laid down in this theory. The amount of capital available is of great importance in the initiating and conducting of production, and therefore in affecting the wages of labour. But the statement that the amount of wages to be paid is determined in advance by the stock of capital representing past production cannot be accepted.

Some writers have attempted to explain the nature of wages on the ground that labour was the residual claimant on the national dividend, *i.e.* it received what remained after rent, interest, profit, and other charges had been paid. Jevons, for instance, stated that "the wages of a working man are ultimately coincident with what he produces after the deductions of rent, taxes and the interest

**The Residual  
Claimant  
Theory.**

on capital." But rent, interest and profit are not fixed quantities, as the theory would imply. Indeed, profit and rent are more akin to residual elements than wages. Obviously a residual theory that can be applied to more than one of the factors of distribution is unsatisfactory.

The theory is significant, however, in that it recognises the importance of productivity. It is not so pessimistic as the earlier theories, since it allows for a positive improvement in the share going to labour, provided that the efficiency of the workers and of industry in general is improved.

The productivity theory breaks away from the conception of a fixed fund, and regards the several types of income (wages, rent, interest and profits) as flowing from a continuous stream, the volume of which varies with efficiency and output. The employer is supposed, under perfect conditions, to make use of the different factors of production in those proportions which will render the maximum net gain. Free competition and mobility being assumed, each factor of production tends to be rewarded according to its specific contribution to the total product.

The marginal theory of value\* is applied to the reward of labour. It is submitted that the value of a man's services is determined in a similar manner to that governing the value of material goods. According to this theory, the wages of a given grade of labour tend to equal the net product of the marginal labourer, *i.e.* the specific output, after deducting all interest and similar charges, of the labourer whom it is just found profitable to employ.

The reasoning may be briefly indicated. An employer is

\* No attempt can be made in these pages to enter into the marginal theory of value. For a full exposition of this important doctrine, see Marshall, *Principles of Economics*, Book V.

endeavouring to secure the maximum net profit. For simplicity, let it be assumed that the price of the article he is selling is fixed not by, but for, him through the play of competition; similarly, that competition determines for him the price that he has to pay for the labour, capital and land. The profits of the employer are represented by the difference between the price he pays for these factors of production and the price he receives for the product. He finds that different combinations of the three factors give him varying net returns. Using a little more capital (*e.g.* machinery) and a little less labour may give him a higher—or a lower—net return than using less capital and more labour. Obviously the most efficient employer will be the one who secures the most perfect combination of the factors. The employer regards labour, land and capital merely from the standpoint of what they are respectively worth to him, and their prices are determined by their specific productivities. If the worker is paid less than the value of his product, competition among the employers is supposed to bring the wage up to the level; if he is paid more, competition among the labourers is depended upon to bring the wage down to that level.

The employer, in his desire to obtain the most economical combination, pays regard not only to the specific product derived from all the labour, all the capital, and all the land that he uses, but (according to this theory) to the differences in the net product that are attributable to the addition or subtraction of small units of each of the factors. Thus is introduced the conception of “the little more or less” that is characteristic of the marginal theory.

Suppose the employer finds that by engaging relatively more labour he secures a net increase in output over and above his extra outlay. He continues to take on workers but finds that at a certain point the net product

per man begins to decrease in value. The explanation of this decrease is afforded by the increased supplies of the product in the market, or by an actual decrease in the amount produced per head, or by the operation of both. (A reduction in output per head does not in this case mean that the men vary in efficiency, for they are all of the same grade and capable of doing the same work. The reason might be simply that the point of maximum returns of the firm has been reached, after which diminishing returns\* begin to operate.) The employer will go on engaging men until he reaches the "point of indifference," where the addition of another man adds nothing to the gain. If he employed labour beyond this point, he would be paying more than it is worth to him. If he stopped employing before reaching this point, he would not be reaping the maximum advantage.

If there is perfect competition on both sides, the employer will pay a wage to all the workers in the grade equal to the net productivity of the worker whom it just pays to employ. The workers in the grade are by hypothesis "identical and interchangeable," they are all of equal efficiency, and an increase or decrease in the marginal product is not attributable to variations in the application and energy of the individual workers in the grade. The marginal worker is as efficient as all the others; indeed, any one of the workers in the grade might be termed the marginal labourer.† The wages of the grade, therefore,

\* Cf. above, p. 32.

† This may be illustrated by analogy with the voters at an election. Suppose the successful candidate was returned by a majority of only one vote. Possibly an individual who voted for him just as a polling booth was closing would claim that it was *his* vote that returned the candidate. But if the latter polled 15,000 votes altogether, any one of this number could equally be termed the decisive vote for they are all "identical and interchangeable."

tend to be measured by the value of the product of the marginal labourer.

Considerations on the supply side of labour must also be taken into account. The "cost of production" of labour, *i.e.* the cost of rearing and training labour of different kinds, is an important factor in influencing wages, though care must be taken not to magnify the influence of this cost. Though a larger sum of money is spent in the training of an engineer than in the case of an unskilled artisan, the relative remunerations are out of all proportion to the respective initial outlays. The cost of training a teacher is higher than that spent on a mechanic, yet the latter may earn a bigger income than the former. Productivity to the employer, rather than the cost of producing the labour, is the principal consideration, though limitation in the supply of labour due to high cost of training will serve to force up the marginal product and therefore the wages.

The wages paid in a trade influence the amount of labour forthcoming, especially over a long period. If the wages in a particular occupation are relatively high, the supply of labour entering that occupation will tend to increase, and eventually bring about a reduction in the value of the marginal product, and therefore a decline in the rate of payment for labour. If the wages are low, the supply of labour will over a period fall off, thus tending to raise the value of the marginal product and consequently the wages.

Again, in a new country where labour is scarce in relation to land, men will be employed only where their productivity is comparatively high. Capital goods will assist in the performance of those tasks on which it would not be profitable to engage labour working alone. In a country where the supply of labour is plentiful in relation to land and capital, it is found possible to employ labour on less productive work than would be economical in the first

country described. This, coupled with differences in the efficiency of industrial organisation, helps to explain why wages are higher in some countries than in others.

The marginal productivity theory, of which the above is a very incomplete exposition, may be equally applied in principle to other forms of distribution. The different grades of labour are theoretically regarded according to their respective marginal productivities. And in theory, interest, rent and profits as well as wages are determined in a similar manner, each factor of production tending to be rewarded according to its marginal contribution to the total product.

Some writers\* slightly modify the marginal productivity theory of wages by introducing the idea of a discount. The period between the commencement of production and the receipt of the money for the finished article is usually much longer than the worker can afford to wait for his wages. The employer advances the "present worth" of the worker's specific product. Thus wages tend to equal the marginal product, minus the discount claimed by the employer for paying out the wages in advance of the sale of the product.

The marginal productivity theory approaches nearer to a complete explanation of wages than do the previous theories, but on account of the peculiarities attaching to the demand for and supply of labour it cannot be regarded as a final statement. "Specific productivity" would require that the respective outputs of labour and capital are separable and measurable to a degree greater than is actually possible. An employer by adjusting the proportions of capital and labour may find that the addition of a given amount of one or the other may result in a certain amount of extra product. But as labour and capital are acting in conjunc-

\* *E.g.* Hadley and Taussig

tion, capital being useless without labour, and labour increasing its productivity by the use of capital, it is hardly correct to speak of a specific product accruing to either.

Further, the theory assumes a condition of perfect competition, the absence of which in real life renders some qualification necessary. An employer may be able to give a higher wage than he is actually paying. But unless he is compelled by the competition of other employers, or by trade union action, to pay the maximum possible, he may continue to give much below the value of the "specific product." To say that an employer *can* pay more does not necessarily mean that he *will* pay more. The theory takes no note of differences in bargaining strength, and assumes a perfect knowledge and mobility on the part of labour. But here again the conditions are not borne out in practice, "economic friction" being particularly marked. The worker may be too weak in bargaining power to secure his due. Or he may be producing value considerably in excess of his wage, yet be in ignorance of the fact. Or he may, for sentimental or other non-economic reasons, prefer to carry on with his old employment though he is offered a better wage elsewhere.

The marginal productivity theory overcomes many of the difficulties that confronted the subsistence and the wages fund theories. It is more optimistic in that it permits of a permanent addition to the wages of labour. It does not fear an automatic increase in population, with its greater competition for employment and the resultant fall in wages. Indeed, it recognises that an increase in population may facilitate a further division of labour and thus improve the net output per individual. Nor does it fear the restriction of a capital fund; it shows that wages are paid on an estimate of future sales, and are not pre-determined by a fund consisting of goods produced in the past. Though its

assumption of perfect mobility cannot be allowed, it explains better than the other theories why wages in one trade are higher than in another. The problem of relative wages is settled in so far as differences in remuneration are due to differences in the marginal productivity of the respective workers. Wages in one district or country may be higher than elsewhere for a similar reason.

This very brief review shows that no theory has yet been submitted which satisfactorily explains the nature and principles of wages. And, as previously suggested, it is doubtful, having regard to the character of the problem, whether any final theory can ever be universally accepted. The critics of the wages system repudiate altogether the possibility of a "law" of wages; they claim that the whole system is artificial and morally indefensible, and that a reasoned scientific law of wages cannot therefore ever be formulated.

From the examination of the several influences on wages however, it is possible to infer some general tendencies, even if these cannot be crystallised into an exact scientific law. The subsistence theory emphasised the fact that wages cannot fall for long below the sum necessary to maintain bare physical efficiency. While recognising that "subsistence" is a somewhat elastic term, one may regard it as providing the *minimum*. The marginal productivity theory showed that, under free competition, wages tended to equal the productivity of the marginal worker. In practice the employer may pay less than this amount, but he will not, in a competitive system, pay more. Thus marginal productivity sets the *maximum*.

As the efficiency of the worker and the organisation of industry improve, the level of productivity rises. Although there is a constant advancement in what the worker regards

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as "subsistence," it would seem that the rate of productivity per worker is increasing in a still greater proportion. Thus the difference between a man's subsistence level and his productivity tends in a progressive country to become wider. The extent to which the actual rate of wages rises above subsistence level depends largely on the supply of the particular labour relative to the demand, and on the bargaining power of the workers and employers.

It may be generally stated therefore that *the rate of wages tends, under free competition, to equal the marginal productivity of the worker. But, as free competition is rarely encountered in everyday life, the wage may fluctuate anywhere between the maximum set by the worker's marginal productivity and the minimum set by his cost of subsistence, the actual rate being determined largely by the bargaining powers of the workers and employers respectively.*

## CHAPTER IV.

### THE WAGES OF LABOUR (*continued*).

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#### § I. THE STANDARD OF LIVING.

It has been shown previously that poverty is a relative term, and that it is impossible to lay down a universally accepted definition. In the same way, it is extremely difficult to define what is meant by the standard of living, for this varies from individual to individual, from class to class, and from country to country. The standard of life is said to be higher in the United States than in Britain. This implies a standard for a whole society. On the other hand, the standard of life of the doctor is said to be higher than that of the skilled mechanic, the standard of a skilled mechanic higher than that of the general labourer. These represent standards of life for different groups within a society. The first type of standard is governed mainly by the natural wealth of the country, the number and efficiency of the population, and the stage of industrial organisation. The second type is determined largely by the power of the respective groups in competition for their share of the social product. Unless stated to the contrary, the term is usually taken to refer to a group.

“Standard of living” is an elastic phrase, and care must be taken not to stretch its meaning too far. A solicitor may spend five times as much as his clerk—but is his

"standard" necessarily so many times greater? A man who has regularly lived up to an income of several thousands a year might claim that to be his "standard"—but in such cases the term becomes farcical.

A distinction must be drawn between a standard of life actually found and a *desirable* standard which would provide the amount necessary to ensure decent comfort and a wholesome manner of living. It is generally agreed that the standard of living should be distinctly higher than a bare subsistence income. This view is positively stated in the Report on Wages and Conditions of Employment of Dock Labour, 1920: "The true and substantial case presented by the dockers was based upon a broad appeal for a better standard of living. What is a better standard of living? By this is not meant a right to have merely a subsistence allowance, in the sense of keeping the soul and body of the worker together, but a right to have life ordered upon a higher standard, with full regard to those comforts and decencies which are promotive of better habits, which give a chance for the development of a greater sense of self-respect, and which betoken a higher regard for the place occupied by these workers in the scheme of citizenship... In the opinion of the Court the time has gone past for assessing the value of human labour at the poverty line."\*

This definition of the standard of life does not pretend to be absolute; it does not specify the amount of necessities and comforts requisite for the particular group. The estimates placed before the Court of Inquiry as to the actual cost of maintaining such a standard varied considerably. The workers presented a figure of £6, the

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of Life as  
a Basis of  
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\* *Report*, § 10.

employers a figure of £3 13s. 6d. out of London and £3 17s. in the London area, these figures being based on a family of a man, wife and three children. Dr. Bowley supported the latter figures, while Sir Leo Chiozza Money put the *poverty* line as high as £5 3s. The workers claimed a minimum daily wage of 16s. Owing to the fact that the docker on the average could secure work for only eight half days out of the eleven, the 16s. per full day claimed would work out at £3 4s. a week. The Court recommended that the standard of 16s. per day be adopted.\*

The size of the family is very important in these calculations. The figure for a man, wife and three children, (none of the children being yet old enough to contribute to the family income) represents on the average the period in the life of a family when the net expenses are heaviest. Where there are five or six children altogether, the older ones may be earning something. "A minimum... so fixed is one under which a bachelor workman at the one end of the scale, and a workman with one or two of his family in employment at the other end of the scale, would stand very largely to gain."†

The question of payment according to need arises in other departments of the subject, notably in the relation between men's and women's wages dealt with at greater length in Ch. V.‡ It is sufficient for the present to state that productivity and not need is the basis of remuneration in the wages system. And if wages for the same task were

\* *Report*, §§ 12 and 45 (1).

† *Ibid.*, §§ 11. It should be noted that this so-called average family of man, wife and three children is by no means typical of a large proportion of the population.

‡ For further consideration of the correspondence between occupational rates and relative efforts and needs, see below, pp. 141-2.

differentiated according to need, the cheaper labour would tend to receive preference, and workers with the most dependants would find it harder than ever to secure employment.\*

During and since the war, wages have been fixed for a large mass of the population on a "cost of living" basis. A certain sum varying from trade to trade is taken as the basis, and the wage moves above or below this according to the rise or fall of the Ministry of Labour's Cost of Living Index Number.†

\* One way of avoiding unfair discrimination between workers with different family needs would be the adoption of a plan, under which the employer is compelled to pay so much per worker into an "equalisation" fund, from which grants would be paid to the workers in proportion to their family obligations. The actual wage would be the same, whether there were many dependants or none at all. This and similar methods have been adopted in France and other Continental countries. See below, pp. 144-5.

† The Index Number represents the level of prices or the purchasing power of the money for one period as compared with another. The year 1900 is often taken as the standard, but for purposes of comparison between pre-war and post-war prices, the year previous to the war is usually adopted. The index number for the standard year is said to be 100; if at any other time prices have risen by (say) 25 per cent., the index number is 125; if they have fallen by 25 per cent., the index number is 75. Thus the Cost of Living Index Number in November 1920 was 276, July 1914 being taken as the basis; *i.e.*, prices of articles entering into ordinary consumption had risen by 176 per cent. since the outbreak of the war. Index Numbers may be calculated for different purposes; a figure constructed for the purpose of adjusting wages will not necessarily be satisfactory for measuring price movements in the world market. A Cost of Living Index Number, if it is to be satisfactory, should be based on retail prices. Wholesale prices, however, though they are more determinate for a large area than are retail prices (which often vary from street to street), are more responsive to changes in market

Reductions in wages on this scale have caused grumbling on the part of some of the workers affected, who contend either that the Index Number is not properly constructed, or (which is a more reasonable contention) that the price reductions on which the change has been affected have not in their particular case materialised to the extent indicated. But no Index Number can be equally applicable to every-

conditions, rising and falling more quickly than retail prices, which are comparatively rigid in a short period.

In the construction of the Cost of Living Index Number, with which the discussion in these pages is primarily concerned, a large number of commodities that enter into daily consumption are taken, and these are so selected as to be as representative as possible of the different types of articles consumed. Some articles enter into ordinary consumption to a greater extent than others. If the price of each commodity were reckoned as 100 for the standard month or year, and the rise or fall in general prices were calculated on this basis alone, the result might be very misleading, for a 50 per cent. drop in the price of an article of secondary importance would exactly balance a 50 per cent. rise in the price of an absolute necessity. "Weights" are therefore added to the several articles in proportion to their relative importance, and a truer index number is thereby attained.

Suppose, for example, that the average family spent five times as much on a given foodstuff as on a given article of clothing. The price of the foodstuff rises by 25 per cent.; that of the article of clothing falls in the same period by 25 per cent. In the absence of "weights," the increase in the one balances the fall in the other, and the index number is not affected. Thus in the first period, Foodstuff = 100, Clothing = 100, Average = 100; in the second period, Foodstuff = 125, Clothing = 75; Average = 100. But if the "weight" of 5 is added to the foodstuff, one gets in the first period, Foodstuff = 500, Clothing = 100, Average (of six units) = 100; in the second period, Foodstuff = 625, Clothing 75, Average (of six units) = 117 (approx.). Obviously the second result is a more correct index of the movements in prices as affecting the average family. The "weighting" principle is applied to all the articles that provide the basis for the cost of living index number.

body, for family budgets, even where the incomes are identical, vary considerably. The Index Number must necessarily be an average. A rise in money wages nominally to cover the higher cost of living may in the case of some families bring an increase in *real* income. On the other hand, a fall in money wages nominally in proportion to the reduced cost of living may in certain instances cause a fall in *real* incomes. The family whose budget does not approximate to the average of the group must necessarily gain or lose slightly by the periodical adjustments. However comprehensive and intricate the calculations, and whatever "weights" are attached to the different articles taken into account, the result cannot be applied equally to all families with the certainty that the incidence everywhere will be the same.

The real objections to a sliding-scale principle, however, are more fundamental. A wage moving up or down with a Cost of Living Index Number is designed to fix the standard of living for a particular group. Many critics insist that the standard of living should be a *progressive* one. They maintain that the mere safeguard against a fall in real incomes is not enough, that the acceptance of a sliding-scale principle will stereotype the workers' incomes, and, following the increases in real incomes during the last hundred years, will in effect be a retrograde step. (On the other hand, there is nothing to prevent the workers from striving for an increase in the basic rate.)

They object further to the classification of the people into different groups, and the standardisation of their respective incomes. The presumptive right of one set of wage earners to have a higher standard of living than another, perhaps to the extent of a hundred per cent. or even more, is strongly disputed. The acceptance of this principle of wage adjustments, it is held, tends to give

permanence to what would otherwise be a temporary classification.

A criticism sometimes put forward is that the adjustment of wages entirely on a cost of living basis is not altogether consistent with true economic principles. In so far as a man's wages are ultimately based on his *productivity*, calculations on a cost of living basis may lead to some anomalies, and even impossibilities. Let it be supposed, for simplicity, that when the rates for two trades were first determined, they measured approximately the respective productivities of the two sets of workers. With the lapse of time, one trade, owing to change in demand or other circumstances, may become relatively more productive than the other. If bargaining is free, wages will tend to rise in the more productive trade, not at the expense of the workers in the other occupation, but out of the extra goods produced. But if wages automatically followed movements in the cost of living, some of the workers would be deprived of what is legitimately theirs.

The converse also is important. A trade might decline in relative productivity, and find itself unable to pay the same wage as before. Insistence upon the wage based only on the cost of living might in such circumstances lead to unemployment.

In practice, therefore, the cost of living principle should not and cannot be strictly adhered to. Workers who find that their industry is able to bear a higher rate of wages will press for an increase over and above the existing rates; while employers who find that changed conditions make the old rates of pay impossible press for a reduction. The sliding-scale is of value in the absence of a better method, especially in emergency periods like war and post-war years, but it is entirely inadequate as a permanent system of determining wages.

The low standard of living and the inadequate labour organisation in many foreign countries necessarily have some effect on the wages paid in the United Kingdom. This has led some people to argue that while such conditions prevail abroad, the wages of workers in this country cannot be raised to any appreciable degree, for any increase in the cost of production here must be followed by orders going abroad and therefore by unemployment at home. While it would be foolish to ignore the under-cutting of prices due to sweating abroad, the danger is not so great as many believe. The possibility of raising or maintaining a level of wages at the expense of surplus profits has been noted above in the theoretical consideration of wages. Better management and superior organisation may raise the rates of wages *and* increase foreign trade. It is the real cost, not the expenses, of labour that helps to govern the cost of production ; *i.e.*, the money outlay on wages may be relatively high, but the greater efficiency of the worker and of the general organisation may cause the net cost per unit of output to be relatively low. The United States, the most formidable competitor of Britain, pays considerably better wages, and does so, not because the employers are more philanthropic, but simply because it is good business. The economy of high wages is more recognised in America than in this country.

Examination of the theory of international trade does not come within the province of this book, but it can be shown that labour and material resources tend to flow into those channels in which they are put to the greatest relative advantage. Individual firms may find their foreign markets dwindling, and attribute their loss to the comparatively high wage they are paying. But it is sometimes

found that the competition comes not only from the foreign firms, but from the rival concerns in the same industry at home, which by better knowledge and organisation are not only building up a good foreign connection but may be paying their employees more than the firms first mentioned. While one firm's exports are declining, a rival manufacturer in the same country may increase his exports to an even greater degree.

It may happen that, owing to changed economic conditions, the total export of a particular commodity may decline. But before attributing the blame to wages, it should be ascertained whether other branches of industry have not gained in at least equal degree. It is often found that foreign trade as a whole increases, though a particular section of it declines in actual volume.

That sweated conditions abroad are a menace to workers in the home country cannot be denied. But their influence is liable to exaggeration, and, in any case, the remedy is *not* to reduce the better-paid employees to the level of the unfortunate workers abroad, but to strive by means of international organisations to raise the wages and status of the foreign labourer.\*

## § 2. THE MINIMUM WAGE.

Though hours and conditions of labour have been subject to State regulation for over a century, it is only in recent years that attempts have been made to impose minimum wage rates by legislation. Trade unions were depended on almost entirely in the nineteenth century for raising the remuneration of the workers, and while they are still the principal means of effecting such improvements,

**Minimum  
Wage  
Legislation.**

\* Cf. Pigou, *Economics of Welfare* (1920) pp. 793-795.

reliance is being placed in an ever increasing degree on the action of the State. A low rate of wages may be in itself a reason for the absence of a trade union, as the workers cannot afford even a copper or two for contributions. The higher a man's wages, the greater his reserve for fighting for still better conditions ; the lower his wages, the less opportunity he has for effective organisation. In some industries, collective bargaining is made still more difficult by the fact that the employers are scattered and ill-organised, as, for example, in clerical and agricultural occupations.

Rates of wages may be influenced directly or indirectly by the public authority. This may be done indirectly by such means as " fair wages clauses," under which employers are given public contracts on condition that they pay not less than the district rate of wages. Some municipal authorities go further, and stipulate that contractors pay such wages not only to the workmen actually engaged on the public work, but to all workers in their employ. Or the State may indirectly help to maintain an established rate of wages through the Unemployment Insurance Scheme, whereby an unemployed person is not compelled to accept work offered to him (under the threat of losing benefit pay) if the rate of pay is below the standard.

The State and local authorities may influence wages directly by giving standard rates to workers in their own employment, and this must influence indirectly the rates paid elsewhere. Another way in which the State may directly influence wages is by ratifying voluntary agreements ; this has been done in New Zealand and Australia. Or it may decide rates by arbitration and enforce them by law, which method has also been attempted in Australia. Or it may set up wages boards to fix rates for particular trades ; such is the policy adopted in this country under

the Trade Boards Acts. Finally it may fix a national minimum below which, with certain exceptions, it is illegal to employ anybody. This plan has been attempted in parts of Australasia and in some American States but has not worked satisfactorily, as the rate has usually been too low to perform any useful service apart from the protection of child labour. The different methods of public regulation of wages are briefly reviewed in this section.

The earliest attempt at State regulation of wages on any appreciable scale was in New Zealand, where in 1894 the State was empowered to establish a court of arbitration and to enforce its awards. Compulsory arbitration was subsequently provided for in Victoria (1901), West Australia (1902), the Commonwealth (1904), South Australia and Queensland (1912). Compulsory arbitration has encountered strong opposition from the trade union movements. As this legislation, however, was designed as much with a view to securing industrial peace as to regulating wages, further consideration may be delayed until later.\*

Besides this method of fixing the remuneration of labour, wages boards were set up, first by Victoria in 1896, followed by South Australia, Queensland and Tasmania. These wages boards, comprising representatives of the employers, the workers and the State, were established for particular trades. Different from the courts of arbitration, their decisions were not binding on both parties, and the workers if dissatisfied were left free to press for higher rates. In recent years the wages board system has extended both geographically and in its scope ; in some of the Australian States practically every trade has its wages regulated by such boards. In New South Wales, however, about half

\* See below, pp. 184-5.

of the workers are covered by State awards in arbitration courts.\*

The *standard* generally taken by Australian legislators is that of the living wage. West Australia, for example, in 1912 required the minimum to be "sufficient to enable the average worker to whom it applies to live in reasonable comfort, having regard to any domestic obligations to which such average worker would ordinarily be subject,"† *i.e.* more than a subsistence wage. The New South Wales Arbitration Act (1918 Amendment) provides for the annual determination of the general minimum living wage by reference to cost of living statistics. In Tasmania and Victoria the standard formerly taken was the wage paid by "the reputable employer," but this method was found unsatisfactory and therefore abandoned. Recent attempts at Commonwealth legislation for the maintenance of children (1919) and the endowment of motherhood (1921), although not yet successful, show that increasing attention is being given to the question of a family wage. Since it is not practicable to depart from the flat rate, and enforce differential rates of payment according to the number of dependants, State subvention is proposed to permit the real income to rest on a family basis.

The regulation of wages is also provided for in Canada, where, however, the legislation is concerned more with the settlement of industrial disputes. In some parts of the United States legal minimum rates have been laid down, but they apply only to women and young persons, adult male workers being so far unprovided for. The District of Columbia passed a minimum wage law in 1917, but the United States Supreme Court declared it unconstitutional in 1923.

\* See article by P. H. Douglas in *Quarterly Journal of Economics*, Vol. 37.

† Industrial Arbitration Act, 1912, No. 57, § 84.

Following a public outcry against sweating in this country, the first Trade Boards Act was passed in 1909. Provision was made for establishing minimum rates in the chain-making, ready-made tailoring, paper-boxmaking and lace finishing trades, where conditions had been exceptionally bad. The machinery was a wages board for each trade, consisting of an equal number of representatives of employers and employed together with neutral State "appointed members," who were to compose less than half of the total number. The Board was to investigate the conditions in the particular trade, and formulate minimum rates of wages, its decisions being enforceable by law. The provisions of the Act could be extended to any other trade, and in 1913 four additional trades, viz., sugar confectionery and fruit preserving, shirt-making, hollow-ware making, and linen and cotton embroidery, were brought within its scope. The workers in all these trades had been inadequately organised, and were therefore more at the mercy of unscrupulous employers than workers in most other occupations.

The experiment was very successful, and in 1918 the Government decided to extend the operations of the Trade Boards to many other industries. The Act of that year made it possible for Trade Boards to be set up in the non-sweated industries, and thus marked a new departure in policy. It was framed largely with the object of providing wages machinery for all trades that did not possess effective means of collective bargaining. Within four years sixty-three Trade Boards in all had been established, catering for about three million workers.

There was a certain relationship between the Act of 1918 and the policy of Joint Industrial Councils so much in vogue at the time.\* It had been found that improved

\* See below, pp. 188-91.

wages in the occupations covered by the Act of 1909 had made contributions to trade unions more possible and thus had improved the bargaining strength of the workers. One object of the Act of 1918 was avowedly to stimulate labour organisations with a view to the ultimate establishment of Industrial Councils. A further object was to provide a brake on the tendency to a too rapid fall of wages following the war.

The principle adopted in determining the minimum rates was not heroic. Though the new wages were as a rule considerably above the former rates, there was no real attempt to lay down a general standard of life minimum, below which no workers in these trades could be paid. The policy rather was to fix rates largely in accordance with what the industry could bear, and the minima therefore varied appreciably from trade to trade. The rates were for "ordinary" (not "average") workers, lower wages being permitted where age or other causes made a normal output impossible.\* Until recently there were no differentiated rates according to districts, the wage applying equally to workers throughout the trade. Now, however, a certain amount of differentiation is possible; for example, the Scottish Aerated Waters Trade Board has fixed a lower rate than the English Board in the same trade.†

In the Act of 1909 a minimum time rate was fixed as the basis, though power was given to establish a piece rate where this was practicable. In some cases the permission

\* To prevent employers from making unfair use of this power, some Trade Boards have insisted on a minimum proportion of ordinary workers; e.g. the Box-making Trade Board stipulates that not less than 85 per cent. shall earn the normal day rate.

† Tillyard, *The Worker and the State* (1923), p. 55.

to fix piece rates was made use of. The Act of 1918 empowered the Trade Boards to substitute a piece-work basis time rate for the ordinary time rate. Almost all the Trade Boards in those industries where piece rates are common have laid down piece-work basis time rates, so calculated that the "ordinary" worker is able to earn the equivalent of the day wage.

The first Act made no provision with regard to hours, leaving this matter to the Factory Acts. The Act of 1918, however, permitted higher rates of wages for time worked in excess of the normal, 48 hours per week being usually taken as the standard. Thus the length of the actual working week in many trades was indirectly affected.

In his account of the Trade Board in the chain-making industry, Mr. R. H. Tawney\* showed that the fixing and enforcement of minimum rates were found thoroughly practicable. He demonstrated that the minimum rates had checked fluctuations both in earnings and in the rate of production, trade being steadied by the reduction of the practice of piling up stores when wages were low. Piece rates during the first few years were shown to have improved by anything from 19 to 67 per cent. The higher wages stimulated the formation of trade unions, which were able eventually to improve the rates still further. No unemployment appeared to have been caused in this trade by the imposition of legal rates, nor was there any appreciable alteration in the proportion of chains made in the factory and in the home (though should machinery ultimately displace hand-labour, it would on the whole be more economical). It was found that the improved piece rates were met partly by the improved efficiency of the worker and the better quality of his work, partly by the

Operation of  
the Trade  
Boards Acts.

\* *Minimum Rates in the Chain-making Industry*, 1914.

higher price of the product, partly by reduced profits ; and to a small extent by the introduction of electric welding machinery.

Fairly similar results were ascertained by the same writer's investigation into the tailoring industry.\* As before, women's and men's wages were considerably increased, an impetus was given to trade unionism, and little unemployment was caused. Employment was regularised, largely because employers had to pay for the time the people spent in the factory whether they were actually working or not. The price of clothing had slightly increased, but this would probably have happened in any case, as there had been a continued rise in prices during the previous seven years. Some of the employers who had given abnormally low wages had lost a certain amount of trade, but the better employers had not suffered as the efficiency of the workers and the organisation of the firms had been improved.

Another investigator† showed that the effects of the Trade Board in the box-making industry closely resembled those found in the other industries. An inquiry into the conditions of home workers‡ affected by the Act demonstrated, however, that these workers derived on the whole less benefit than those employed in factories and workshops. The reasons were mainly the difficulty of inspection, the fear of many of the home workers of losing their employment if they insisted on the legal rate, and the fact that many home workers were not "ordinary" within the meaning of the Act (*e.g.* the aged), and therefore could legally be paid less than the normal minimum.§

\* *Minimum Rates in the Tailoring Industry*, 1914.

† Bulkley, *Minimum Rates in the Box-making Industry*, 1915.

‡ de Vesselitsky, *The Home Worker and Her Outlook*, 1916.

§ The problem of the home worker is further considered in connection with women's work and wages, pp. 145-48.

A comprehensive survey of the whole of the Trade Board system has recently been published,\* and the general conclusions bear out those already found for particular industries. Wages are shown to have increased, plant to have improved in efficiency, trade union membership to have grown, relations of employers and employed to have improved, and hours of labour to have conformed more to the 48 hour rule.

The writer, however, points out certain defects† that might be put right without affecting the essential principle. The period allowed between the decision and legal enforcement for lodging objections (now three months) is claimed to be too long, as prices may change considerably in the meantime. If prices are rising the worker suffers, if they are falling the employer may find it impossible to pay the scheduled rates when they become legally enforceable. Secondly, it is submitted that the Boards should institute more scientific inquiry into the conditions of the trade before fixing rates, and not depend too much on hearsay evidence. Thirdly, the means of enforcement are at present inadequate, and to cope with the evasion—the extent of which is by no means negligible—the inspectorate and their powers should be increased. Finally, a central unifying authority is proposed to co-ordinate the activities of the Boards; the Industrial Court might fulfil this function or a Central Trade Board might be instituted.

The depression in trade soon after the war, and the heavy fall in prices, made it difficult, if not impossible, for some employers to pay the legal rates. There is no doubt that a few Trade Boards had fixed comparatively high minima, which, in view of the inelasticity previously mentioned, created a

**The Inquiry  
of 1921.**

\* Sells, *The British Trade Board System*, 1923.

† *Ibid.*, pp. 262 et. seq.

difficult situation. Subsequent events, however, showed that the deficiencies of the system had been grossly exaggerated. In 1921 the Government set up a Committee to inquire into the operation of the Trade Boards, and a Report was issued. It is significant that a large proportion of the employers who gave evidence supported the principle of the Trade Boards, and that the workers and employers were often in agreement on the necessary improvements in the administration.

The Committee proposed amendment, not abolition, of the system. They stated that the rates of pay were sometimes too high, that competition from foreign firms employing cheaper labour had become formidable, and that many works had been compelled to close down. (It is doubtful, however, whether it was not the general depression rather than the Trade Board rates that was responsible for most of these failures.) The Committee deprecated the lack of co-ordination and the multiplicity of Boards, and therefore of rates, for kindred industries. It also considered the period between decision and enforcement to be too long.

The Committee recommended that a return be made, in effect, to the principle of the Act of 1909, viz., that only the sweated and inadequately organised trades be provided with Trade Board machinery. (The general conclusions and main recommendations of the Committee are quoted in Appendix A.)

The report of this Committee was denounced by the supporters of the Trade Board principle as reactionary. A Bill was introduced in 1923 to give effect to these proposals, but the Labour Party opposed it on the ground that the main object of the Bill was not to facilitate the administration of the existing law, but to hamper and restrict it. Subsequent developments have made it un-

likely that the Trade Board system will undergo any material alteration in principle.

In 1917 the Corn Production Act, besides guaranteeing minimum prices to farmers for the principal corn crops and restricting agricultural rents, established the Agricultural Wages Board and laid down 25s. a week as the absolute minimum wage for agricultural workers. The Wages Board consisted of 16 representatives of the workers, 16 representatives of the employers, and 7 appointed members. The Board was instructed to fix legal minimum time wages for different areas in England and Wales, and was empowered also to fix minimum piece rates. The Act provided further for the establishment throughout the country of District Wages Committees, comprising equal numbers of employers' and workers' representatives, together with one or more appointed persons. The District Committees had no executive power, and merely made recommendations to the Wages Board as to the rates of wages that should be paid in their districts. The agricultural worker derived considerable benefit from the operation of the Act.

In 1921, however, the Corn Production Act was repealed. Guaranteed prices were cancelled and the Wages Board was abolished. Provision was made for the establishment of Voluntary Conciliation Committees, which were to agree upon a minimum rate for each area. If confirmed by the Minister of Agriculture, the agreement became an implied term of every contract or employment in the area concerned, and any workman who received less than the agreed rate could take civil proceedings to recover the difference. These Committees were on the whole a failure, due largely to the fact that they were purely voluntary in character. The Minister of Agriculture stated on December 6th, 1922, that during the whole year only seven agreements had been

made enforceable. In 1923 the Government introduced a Bill to make compulsory the registration of agreements arrived at by the Conciliation Committees, but it did not pass into law. The absence of any clause to compel districts to establish a Committee and negotiate an agreement was a serious defect in the proposed measure.

In August, 1924, the Agricultural Wages Act was passed. Provision was made for the establishment of County Agricultural Wages Committees and a National Agricultural Wages Board. It is the duty of the County Committees to fix statutory minimum rates of wages for agricultural workers. The Wages Board has the power to intervene if a County Committee fails to lay down a minimum rate or if a resolution of the representative members of such a Committee requests the Board to fix a rate for them. The original draft of this Government measure required the confirmation of the Wages Board for *all* rates, as it was feared that, in areas where the workers' organisation was weak, the rates might be fixed too low. This proposal, however, was defeated.

The published rates of the County Committees show on the average an advance of two or three shillings a week. In areas where the wages were lowest, the rates have been increased by as much as five shillings a week.

The wages of the farm labourer are still very low compared with those of the artisan in the towns, and the reason is not far to seek. Firstly, the productivity of British agriculture is not, at the present time, as high as that obtaining in other branches of industry. Improvement in agricultural methods is imperative if the industry is to hold its own with foreign competition and to pay its workers a decent wage. Agriculture is a most vital industry, and one cannot, in prevailing conditions, adopt the attitude that if the industry cannot afford to pay a living wage, it

should be condemned as parasitical, and should give way to more profitable enterprise. So long as this country is not immune from war, the food-growing resources must not be permitted to decay. There are many who contend that in view of the exceptional circumstances of agriculture and its inability, at least under the present system of production, to pay a reasonable wage, the Government should subsidise the industry in one way or another so as to make higher wages possible, yet not render the industry unprofitable. A condition of such a subsidy, however, should be the adoption of more scientific methods of production. Indeed, the yield from agriculture might be so increased by such means as to cause the need of a subsidy to disappear.

Another reason for the inadequate wages of the agricultural labourer is the weakness of his organisation. There have been spasmodic attempts to form effective trade unions, but, though the movement has had some success in certain parts of the country, it has been handicapped from the start by the conservatism of the farm labourer and by the fear of victimisation. The scattered nature of the industry presents a further obstacle to organisation, but progress is gradually being made.\*

Some reformers, not content with minimum rates for specific industries, propose that there should be a national minimum time wage below which it would be illegal to employ any worker. They object to the principle of fixing a wage in accordance with what the industry can bear, maintaining that a sweated industry may be perpetuated as such if it be proved to be unable to pay a decent wage. They prefer to act on the principle that if a trade cannot pay a specified rate of wages, it ought to disappear, even though temporary unemployment might result. A national

A National  
Minimum  
Wage.

\* See Selley, *Village Trade Unions in Two Centuries*, 1919.

minimum is further supported on the ground that it would be impossible for unscrupulous employers to re-grade and "shuffle" their workers so as to evade the minimum rates stipulated for the several grades. That this evasion has frequently been practised cannot be denied.

There have been a few attempts to carry out such a policy, but so far with no marked success. In some of the States of Australia, and in New Zealand, legislation has been passed to this effect, but the stipulated wage has been extraordinarily low.\* National minima for women and juveniles have been provided in some of the American States.† In practically all these cases the minimum is so low that the real object of the legislation has hardly been achieved. To have fixed higher rates would probably have caused the dismissal of a certain number of low-grade workers, and the legislators were not prepared to pursue the policy to its logical end.

It is manifestly impossible to fix a national minimum at a point higher than the productivity of the workers. There is, however, considerable difference of opinion as to what actually constitutes this productivity. On the one hand the Marxian school urges that the whole of the product of industry should go to labour; on the other hand the supporters of the present system claim an adequate share for capital and enterprise (though there is no real reason why the latter should not be included with labour). Again, there is the more subtle question of what "productivity" really means. Is it to be measured in terms of money value or in terms of quantity? The output of a relatively small quantity of goods may have a high money value; to increase the quantity might mean greater social service yet a lower aggregate exchange value. It is often pointed out

\* Aves, *Report on Wages Boards*, p. 88.

† See Pigou, *Economics of Welfare*, p. 554.

that the extent of the national dividend is limited (say £4,000 millions), and that if this sum were equally divided among the population (say £80 per head) the average standard of comfort would not be inordinately high. This argument ignores the essential fact that a better distribution of income would in itself reduce waste and increase useful productivity, and so augment the average real income over and above the sum derived from a simple calculation of present values.\* In fine, money values are not the best index of real social utility, and therefore estimates of "average standards of living" on such a basis are very misleading.

But most of the advocates of a national minimum would be content with a figure much below a simple average as calculated above, for they recognise that several trades cannot afford to pay this rate, and even in those industries that can, many inferior workers would not be worth employing. Yet if they put the sum too low, their real object of providing a living wage for everybody in employment would be defeated. Unless the wage is fixed at a very low level, it is certain that some low-grade workers, whose specific productivity would not justify their employment in a competitive system, would be discharged. A sound scheme for a national minimum must contain therefore a satisfactory arrangement for these workers.

One proposal is to exempt employers from paying the minimum to the aged and incapacitated, and to recognised low-grade workers—as is done to a certain extent under the Trade Board system. Others would make it an irreducible flat rate, allowing of no exceptions. They propose that the State should train the discharged workers for alternative employment, maintaining them in the meantime, or, if this is not practicable (and it would hardly be

\* Cf. below, pp. 241-2.

possible to train old people for other occupations), the State should employ them in some public industry and pay them the minimum rates, even though these are not "earned" in the ordinary sense. It is argued that the loss involved in subsidising these workers' wages would be more than balanced by the gain accruing to the workers in private employment and to the community as a whole.

If a national minimum is to be established, it would be preferable, at any rate in the early stages of the policy, to rely on the first method of allowing certain exemptions rather than the second which would throw the entire burden of the relatively inefficient on the State. Doubtless there would be attempts to make unfair use of the permission to employ certain people at less than the legal minimum, but it should not be very difficult to restrict this abuse. A maximum proportion of inferior or slow workers might be imposed by statute, or it might be left to the trade unions and wages boards which would, of course, still function. The wages of home-workers could also be adjusted under such an arrangement, whereas they would be severely hit by a rigid national minimum time rate.

The difficulties in the way of an effective and equitable national minimum wage are considerable, and to under-rate them in the planning of a scheme might lead to failure. In the meantime, however, the endeavours after minimum rates in particular trades should not be relaxed, not only because certain minima might be much higher than the national minimum, but because the gradual establishment of minimum conditions in an increasing number of employments may help to bring about and make effective a statutory national minimum in all industries.\*

\* The relation between a national minimum and women's wages and family obligations is examined below, pp. 139-40.

From the experience of minimum wage legislation in this country and abroad it is possible to draw valuable conclusions on the operation of the Acts and their effects on wages, on employment, on labour organisations and on industry as a whole. These have been indicated already in the case of the Trade Boards Acts, and as they are fairly representative of the results of other legislation, only a brief summary is necessary.

Wage rates have been appreciably increased, and this alone, so far as it has guaranteed workers a decent standard of comfort hitherto denied them, would be a sufficient justification of the legislation. The official reports for Victoria show that the average wage of 13 trades rose 16.5 per cent. in 5 years, compared with 7.6 per cent. in the 5 years before the wages boards were set up. In 6 trades a decline in wages changed to a rise. The Industrial Commission of the U.S.A. reported that in 24 stores, 1,758 women received less than \$10 weekly before the award of minimum rates; afterwards only 561 received less than this sum.\* The frequent criticism that the minimum tends to become the maximum has not been borne out, for the average rate of payment in the trades affected has been proved to be above the legal minima—in America and Australia as well as in Great Britain.

It was frequently contended that the minimum wage would cause unemployment, because employers would be unable to pay the specified rates, or because they would be induced to replace adult workers by apprentices. Unemployment on account of inability to pay the stipulated rates has been caused only to a very small extent, and it may reasonably be argued that, as a general rule, a business

\* Commons and Andrews, *Principles of Labor Legislation*, p. 210.

which depends on sweating the workers for its existence is parasitical, and that its disappearance is for the ultimate good of the community. As for replacement by apprentices, there is usually a maximum percentage of learners allowed, *e.g.* 15 per cent. in many Trade Board regulations. Trade unions, too, usually stipulate a maximum proportion.

In nearly all cases the effect of this legislation on industry has been distinctly beneficial. Not only has the efficiency of the worker himself increased, but the employer has been stimulated to improve the organisation of the business, and eliminate waste in several directions. The fear that cheaper labour abroad would cause foreign competitors to capture the market has not, on the whole, been borne out. The Board of Trade stated before the war that it was "not aware of any tendency of manufacturers to transfer their business to foreign countries." Many employers have favoured minimum wage legislation since they find that the real labour cost (*i.e.* measured in terms of output) has not materially increased, while they have welcomed the elimination of the "hole in the corner" employer, who not only sweated his own workers but also, by cutting the prices, tended to depress the rates of payment in other firms.

Finally, it had been anticipated in some quarters that a State granted and enforced minimum would prejudice the trade union movement, in that the workers would find that their conditions could be improved independently of labour organisations. But here again the fear has not been justified. Trade union membership has constantly increased, while many of the unorganised trades have taken advantage of the higher rates imposed by the State and have formed unions. The main reason for their absence or inadequacy in the past had been the inability of the workers to afford a sufficient contribution, and this deficiency was now largely remedied.

## § 3. THE PAYMENT OF WAGES.

So far attention has been given to the factors governing wages as a whole, but nothing has been said regarding the calculation of the actual wage rates. Though the method of payment is not as important, from the standpoint of the social student, as the general principles underlying the remuneration of labour, a little may be said to indicate the chief systems of wage-rate determination and the peculiar problems they present. The simple classification of payment by time and by piece is the most important, and may be considered first.

Time rates are more common than piece rates in the transport and distributive trades, clerical work, agriculture, and other occupations in which conditions are peculiarly favourable to payment by time. These conditions may be shortly noted. Where the quality and the quantity of the work are difficult to measure, as for example in general surveillance, or where the work is of unusual character, such as repair work, time wages are usually more practicable. In instances where the work requires careful and accurate application, and undue haste might cause serious loss, or where delicate and expensive material and machinery are used, time rates are again preferred. Similarly, where the work is the joint product of two or more people, it is often found more expedient to pay on a time basis, though piece rates under a "gang" system are not uncommon. Lastly, time rates are desirable where the work is liable to interruption through no fault of the worker—*e.g.* in agriculture and building, where the weather influences working conditions.

The advantages of time rates arise largely from these conditions. There is little temptation for a man to

“scamp” his work (though the precautions against this in a piece rate system are frequently very effective). Time rates make for simplicity and reduce the expense of clerical work, while they make for better feeling among the workers who are not put, as it were, on a competitive basis. The worker’s income is also likely to be more regular.

The main objections to payment by time are that, as the incentive provided by piece rates is absent, the total output of work is liable to suffer, and that more supervision is necessary. Thus the real cost of the labour may be high. In so far as piece earnings are a better guide to a worker’s efficiency than time earnings (though the extent to which they provide this index tends to be over-estimated) the employer is enabled to select the more efficient men for superior work.

Piece rates are common in the textile, pottery, iron, steel, tinplate and other industries in which the conditions are suitable to this method of remuneration. These conditions are of course the reverse of those indicated in connection with time rates. Where the work is standardised and measurable in quality and quantity, and where a specific amount of effort can be relied upon to result in a given amount of product, piece rates are usually preferred. The method is also adopted where supervision is expensive or difficult—*e.g.* in homework.

The employer favours payment by results in that he pays in proportion to the work done. He particularly prefers this method if he finds that extra output reduces the standing charges per unit produced, and thereby makes for greater economy. To the extent that piece rates mean higher earnings and less supervision over time-keeping and intensity of labour, workers prefer this method to time rates, provided that they have an efficient organisation which prevents the employer from “nibbling” the rates.

The temptation of the employer to reduce the piece rate when he finds that efficient workers are earning high wages, and especially if he can get the work done more cheaply by non-union labour, is a serious difficulty which a system of payments by results, if it is to be successful, has to overcome. Collective bargaining is frequently effective in guaranteeing to the workers that if they produce more than the average they will not suffer in consequence by having the rate per unit cut down. In order to guard themselves against paying excessive rates of remuneration, yet to guarantee to the workers that the rates will not be undercut, many employers have introduced a system of premium bonuses, according to which the remuneration increases with output, but in a *diminishing* ratio. These methods will be considered later.

Other disadvantages of piece rates are suggested by the relative advantages of time rates. In the desire to increase his earnings, a man may be tempted to "scamp" his work, but as effective safeguards on the quality of the work are usually provided by a system of keen inspection, this drawback should not be magnified. Another difficulty lies in the calculation of a satisfactory piece rate, one which is to guarantee to the ordinary workers a decent standard while remunerating the more efficient workers according to their output.

It cannot be too strongly emphasised that time rates and piece rates must necessarily be calculated with some reference to each other. A time rate must directly or indirectly be based on the average amount of work to be done in the time. For example, in a time rate system there is usually provision for an "under rate" for aged or other slow workers. Similarly a piece rate must bear a relation to the length of time taken.

The  
Determination  
of Wage  
Rates.

In the determination of piece rates, the foreman's estimate of the time required to perform a certain task may be taken as the basis, or a more scientific calculation from time records may be made by professional rate-fixers employed by the firm. Or the task may first be given to an "average" worker, whose time is observed and taken as the basis of the piece rate. This last method is open to abuse, in that a "fast" rather than an "average" worker may be selected for special observation. Also, the conditions of the experimental tasks may not be typical, the material may not be of the average quality, and unless, by mutual agreement of employers and employed, the worker chosen and the conditions of the test are strictly representative, serious dissension may arise when the piece rate is put into operation. Collective bargaining is indispensable to the smooth working of a piece rate system. Where the piece rate, through faulty calculation or other reasons, results in obvious discrepancies in relative wages (as for example the high pay of some workers on automatic machines during the war contrasted with the remuneration of the skilled workers and foremen) collective bargaining should be depended upon to restore a proper balance.

Sometimes a time rate is adopted with a specific piece basis, *i.e.* a certain amount of work is expected to be accomplished in a certain time. Any surplus may or may not be paid for according to the particular arrangement. Or a piece rate may be adopted along with a guaranteed time rate, *i.e.* a worker is assured of a minimum time wage together with extra pay for output over a given standard. Occasionally, where accuracy and quality of work are of first importance, there may be a certain addition to the wage rate. In other instances, the wage is made to vary with the percentage of rise or fall in the amount of waste. Systems of wage determination are extremely varied, and

are too numerous for all to be mentioned here.\* Only the best known methods can be considered.

The sliding scale method bases wages on the selling price of the product (and must not be confused with the cost of living sliding scale, which is essentially different†). The system is favoured by employers where the price of the product is subject to great variation. It used to be more prevalent than it is nowadays, though it still operates in some branches of the iron and steel industry. Variation of wages with the selling price of the article means as a rule (though not necessarily) variation with profits, and the system has therefore a certain resemblance to profit sharing.

Strong objections may be brought against the sliding scale method. Firstly, it is difficult to obtain a satisfactory basis of calculation, for prices may rise or fall owing to changes in demand for the particular product, or they may vary with prices in general owing to changes in monetary conditions. The calculation, if the result is to be equitable to all parties, would be very complex.‡ Secondly, the worker should not be expected to participate in the risks of the market to the extent implied in the scheme, and a fall in his income of a certain percentage means a greater sacrifice than the same percentage drop in profits would cause to the presumably wealthier employer. In some schemes a minimum wage is ensured so as to prevent the standard of life being undermined by a reduction in the price of the product ; but in such cases a maximum may be fixed also.

\* See Prosser, *Piece Rate, Premium and Bonus*. For critical account from the workers' standpoint, see Cole, *The Payment of Wages*.

† See above, pp. 68-71.

‡ See Pigou, *Economics of Welfare*, 1920 Edition, pp. 584-5.

An objection occasionally encountered is that the employers or the workers might attempt to "rig" the index price to suit their own advantage. The employers, it has been claimed, might reduce the price and recoup themselves at the expense of wages. But it is extremely doubtful whether the employers would gain from the wages bill what they would lose from cutting the prices—unless the reduced price brought a considerably increased turnover. And it is inconceivable that the workers would consent to a sliding scale arrangement in a trade in which a reduced price, through increasing returns, would bring greater profits to the industry. There is the possibility, however, that the employers might resist tendencies to price reductions less strenuously when they would be compensated in part by a reduced wages bill. From the other standpoint it has been argued that the workers might be induced to restrict their output so as to force the price up, and therefore increase the wage rate. But it is very improbable that the loss in piece earnings would be balanced by the gain resulting from the higher price. Even if the workers were paid by time, working slackly would prejudice their chances of continued employment and more than nullify any possibility of a net addition to the wages.

The sliding scale method, therefore, cannot be widely applied. It would be very unsuitable in an industry which produced under increasing returns and for whose product there was an elastic demand. Wages often increase while the selling price of the article falls. For example, a rise in wages in the motor car industry is quite compatible with a reduction in the price of motor cars, provided that there is a corresponding improvement in industrial efficiency. The industries in which prices and wages must necessarily move up or down together are extremely few.

Several systems of premium bonuses have been devised, the common characteristic being the attempt to combine the advantages of time and piece rates and to reduce, if not eliminate, the drawbacks. One of the best known methods was drawn up by an American engineer,

F. A. Halsey. The general principle may be quoted :—

“ If a man improve on the standard time, he is given not the whole of the time saved as under the piece wage system, but a definite portion of it, commonly one-third or one-half. Again, if he loses time, *i.e.* if his time exceeds the standard set for the job, he does not (as under the piece-wage method) sacrifice the hours in excess of the standard time, but he still receives time-wage for all the time worked by him ; for the Halsey premium carries with it a guaranteed time-wage. To take a practical illustration : supposing the time set for the job be ten hours, and the work be completed in eight hours, the operative would be given, in addition to his eight hours at time rate, a portion (probably  $33\frac{1}{2}$  per cent. or 50 per cent.) of the two hours saved.”\*

In short, the Halsey premium gives a bonus at a fixed rate for every hour saved. The system is claimed to be advantageous to the employer, in that he runs less risk of paying too high wages, especially during an experimental period. The worker is said to benefit in that he is guaranteed his time wage and thereby receives greater security. The disadvantage to the employer lies in the uncertainty of the standard of attainment, as no standard is laid down. The obvious drawback from the worker's standpoint is that he does not get the equivalent of what he produces. Further, the extra output effects economies in standing charges which do not enter into the calculation of the bonus. Even if the worker received a full 100 per

\* Prosser, *Piece Rate, Premium and Bonus*, p. 28.

cent. bonus (in effect a piece rate with a guaranteed day rate) the employers would still benefit from the economies in overhead charges.

A second method, more common in this country than the **The Rowan Premium.** Halsey system, is that devised by D. Rowan some ten years later.

"The Rowan system follows the Halsey premium in paying a portion of the time saved, but, instead of giving to the worker a fixed percentage of the saving, it adds to his actual time a percentage identical with that by which the standard time is reduced. Thus, if the employee performs a task in eight hours, the standard having been fixed at ten hours, he would get as premium two-tenths or 20 per cent. of eight hours = 1.6 hours. The young reader should be careful to note that the premium percentage is applied to the time actually worked, and not to the time saved. So, in the case quoted, the premium rate, 20 per cent., is added to the hours worked, *i.e.* to eight hours. It would be wrong to take 20 per cent. of the time saved, *i.e.* of the two hours, and call that the premium . . . If the standard time be exceeded, the worker gets time-wage for the whole of the time ; in other words, the time-wage is guaranteed."\*

This plan gives a higher bonus than the Halsey method during the early stages of time saving. If the time were reduced to half, the two systems would pay the same premium. After that the Rowan rate is lower than the Halsey rate, though the possibility of such a saving of time is very remote.

The same general objections can be made against the Rowan method. The system is distinctly to the advantage of the employer, and this advantage is sometimes concealed by the complicated formulæ which the average

\* Prosser, *op. cit.*, p. 38.

worker does not understand. It is significant that these premium systems have been largely worked out by engineers whose mathematical inclinations have led them to calculate the wages of labour almost as precisely as the costs of driving the machinery. But men cannot be standardised like machines.\*

According to the so-called "efficiency" method of payment, not only a man's total wage, but the basic rate itself, varies with his efficiency. One system of wages that comes within this category employs a differential piece rate, which rises or falls with the output. The more one produces the higher the piece rate; the less one produces the lower the piece rate. In some instances (*e.g.* in the Taylor plan) a specific standard of quality is imposed, and imperfection in one piece means a reduction in the whole scale.

The advantage from the employer's side is obvious; for though he pays higher piece rates for higher outputs, he secures the economies in overhead charges noted above. The efficient workers may also prefer the method, but the less fortunate are doubly penalised. "This is a system of which it may truly be said that nothing succeeds like success and nothing fails like failure."† A man who can produce two-thirds as much as another man may only get one half his wage. The object of the differential piece rate is to weed out the inefficient. But if the rates are such that a worker of average ability cannot earn a living wage, the method is indefensible.

To remedy this injustice, various modifications have been made by firms adopting the efficiency system. In some cases a simple minimum wage is guaranteed. The Gantt

\* See Cole, *The Payment of Wages*, Ch. VI., for criticism of premium bonus schemes.

† Prosser, *op. cit.*, 58.

plan, for example, differs from the Taylor system in that there is only one piece rate, and that a minimum wage is assured. The "task system" is employed, according to which the workers are put on a task, which, it has been ascertained by experiment, can be completed by an efficient workman in a certain time. If they perform this work in the same time, they obtain a specified premium; if not, they receive the minimum time wage.

"Under this system each man has his work assigned to him in the form of a task to be done by a prescribed method, with definite appliances, and to be completed within a certain time. The task is based on a detailed investigation by a trained expert of the best method of doing the work; and the task setter, or his assistant, acts as an instructor to teach the workmen to do the work in the manner and time specified. If the work is done within the time allowed by the expert and is up to the standard for quality, the workman receives extra compensation (usually 20 to 50 per cent. of the time allowed) in addition to his day's pay. If it is not done in the time set, or is not up to the standard for quality, the workman receives his day's pay only."\*

Several other "fancy" methods of remuneration could be described, but they all resemble in essential principle those already mentioned. "Efficiency" and similar systems of payment are associated to a greater or less degree with "scientific management," the object of which is to reduce waste in industry to the minimum. This aspect of the subject is considered in the following chapter.

\* Going, *Principles of Industrial Efficiency*, p. 135, quoted in Pigou, *Economics of Welfare*, p. 442

## CHAPTER V.

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### HOURS AND EFFICIENCY.

**Reduction  
of Working  
Hours.**

There is a close connection between the struggle for higher wages and the movement for a reduction of working hours. The worker may be primarily concerned with improving his cash income so as to secure more of the necessities and comforts of life. At a certain point in his progress, however, he may decide to forego for the time the possibility of an increased wage in terms of money, and to press instead for a curtailment of the working day. If he is successful in obtaining this reduction in hours while his weekly wage remains unaltered, he receives in effect an increase in the real reward for work done. The worker thus decides virtually to "buy more leisure" rather than an additional quantity of ordinary commodities. In other words, leisure takes its place as an essential factor in a person's standard of life.

For upwards of a century, the workers have fought for more leisure both by industrial and by political means. The Industrial Revolution, especially in the early years, caused an enormous amount of over-working. Trade unions were as yet in their infancy, and reformers sought State intervention. This was no easy matter at a time when the "let alone" principle dominated public policy. But this apathy could not be maintained in face of the glaring abuses of the factory system. Children, young persons

and women were the worst sufferers, and several Acts were passed during the first few decades of the nineteenth century limiting the hours of young workers. For example, twelve hours a day became the maximum for child workers in the cotton trade in 1819; the age was raised to eighteen in 1833, and in 1835 employment of juveniles at night was declared illegal. Women were brought within the scope of the Factory Acts in 1844, when their hours were limited to twelve, exclusive of meal-times. Some years later, employment of women in the mines was forbidden.

The "Ten Hours Movement" of the 'thirties and 'forties resulted in many trade unions obtaining this maximum working day, even before the legislation of 1847, which made ten hours the maximum for women and young persons and provided for a Saturday half holiday. The legislation, which at first was applied to the textile trades only, was gradually extended to other industries. Although the working hours of men were not specifically controlled by this legislation, the restrictions on female and juvenile employment inevitably affected the working hours of men, especially in the textile mills, for employers did not find it profitable to keep the machinery and plant in operation for the adult male workers only.

The ten hours maximum having been secured, the workers began to press for a nine hour day. The stone-masons and carpenters had been agitating for the nine hour day even before the Ten Hour Act of 1847, but it was left to the engineers first to obtain this concession from the employers in 1871-2. Several strikes occurred about this time in the struggle for the reduction of working hours.

The next move was the claim for the eight hour day. The demand was not a new one. Robert Owen had advocated it in 1817, while it had figured in the programme of the Chartists and other revolutionaries in the 'forties. The

Trades Union Congress passed a resolution in its favour in 1869. The agitation did not become extensive, however, until the 'eighties, when the Socialists, who were now becoming prominent, gave it their support. In 1888 an Eight Hour Bill for miners was introduced in the House of Commons, but without success. An increasing number of municipalities and private firms granted an eight hour day to their workers, but there was no legislation passed until 1908, when the Miners' Eight Hour Act marked the first direct attempt on the part of the State to control the working hours of adult male labour. The hours of the miners were further reduced to seven in 1919.\*

\* It is becoming recognised that even national legislation on the subject of working conditions is inadequate, and that some international agreement is essential if the position of the worker is to be improved. The first session of the Conference of the International Labour Organisation (Washington, 1919) adopted several draft conventions, applying to hours, unemployment, childbirth, night work of women, employment in unhealthy processes, employment of children and young persons and the use of white phosphorus. The convention relating to hours was the most important. It aimed at limiting the hours of work in industrial undertakings to eight in the day and forty-eight in the week, subject to certain exceptions. So far, this country has not given legislative effect to this convention.

The second session of the conference (Genoa, 1920) dealt solely with the conditions of work of seamen. The third session (Geneva, 1921) was concerned largely with agricultural questions, though attention was also given to such problems as the weekly rest in industry and the use of white lead. The fourth session (Geneva, 1922) was occupied mainly with the improvement of the machinery of international labour legislation, based on the experience gained during the previous three years. The subject of emigration was also considered. In the fifth session (Geneva, 1923), the general principles of the organisation of factory inspection provided the subject for discussion. A detailed recommendation was adopted, relating to the sphere of inspection, the functions and powers of inspectors, and the general organisation of inspection and reports. The sixth session (Geneva, 1924) dealt with the workers' leisure,

Legislation restricting the hours of shop assistants and other commercial employees did not begin until 1886, when the working hours of young persons under 18 were limited to 74 per week, including meal-times. Six years later the Select Committee on Shop Hours reported that this Act was not generally enforced, and steps were taken to put the law into operation. Subsequent legislation improved the condition of shop assistants, but it was left to the Shop Hours Acts of 1911-12 to institute a legal half-holiday and to insist upon allotted times for meals. An important omission was the failure to restrict the working week, comprising 70, 80 and even 90 hours, of assistants, male and female, over 18 years of age. During the war distinct progress was made. In 1916 the Government, urged largely by the desire to economise in coal, issued an order compelling shops to close not later than 9 o'clock on Saturday and 8 o'clock on other days.\* Hitherto many shops had remained open as late as 10 and 11 o'clock, the more enlightened shopkeepers often being compelled by the less scrupulous traders to fall into line. This and subsequent

equality of treatment for national and foreign workers as regards workmen's compensation for accidents, and sundry other questions.

Though the various conventions have not in many countries received the force of law, it is to be hoped that, with the coming of more prosperous times, the industrial nations of the world will find it possible to embody the conventions and recommendations in effective legislation.

For information on the activities of the International Labour Office see the *International Labour Review* (monthly), *Industrial and Labour Information* (weekly), *Reports of the International Labour Conference*, and the various *Official Studies and Reports*, e.g., *Application of the Three-Shift System to the Iron and Steel Industry*, *Wage Changes in Various Countries* (1914-1922), *Remedies for Unemployment*, etc.

\* The first Order specified 7 o'clock from Monday to Thursday, but owing to opposition from traders the time was altered almost immediately to 8 o'clock.

orders were embodied in the Shop Act of 1920, though a slight amendment was made in the following year in order to extend the hours during which fruit, confectionery, etc., could be sold to the public.

Standard Hours in Certain Industries in 1914 and 1922\*

Trade.	1914.	1922.
Building .. .. .	44½-53½	44 (41½ in Dec. and Jan.)
Mining .. .. .	8 hour shift	7 hour shift
Metal .. .. .	54 men	47 men, 48 women
Iron and Steel .. .	12 hour shift	8 hour shift
Cotton .. .. .	55½	48
Wool .. .. .	55½	48
Flax .. .. .	55	48
Hosiery .. .. .	53	48
Silk .. .. .	52½	48
Tailoring .. .. .	48-50	48
Boot and Shoe .. .	52½	48
Railways .. .. .	60	48
Carters, etc. .. .	48-60	48
Agriculture .. .. .	60-65	48-60
Printing .. .. .	49-51	48
Furnishing .. .. .	48-58	44-47
Pottery .. .. .	51½	48
Baking .. .. .	48-54	44-48
Cocoa .. .. .	52	47
Tobacco .. .. .	45-50	48
Co-operative Societies .. .	48-52	44-48
Public Utilities .. .	48	47
Electrical Supply .. .	48	47
Gas Works .. .. .	48	47-48

Experience has amply demonstrated that greater leisure for the workers and better profits for the employers are perfectly consistent with each other. Curtailment of working hours and the retention of the normal rate of pay are also compatible, for, as in the case of high wages, the improve-

The Case for  
a Reduced  
Working Day.

\* Taken from *The Worker's Register of Capital and Labour*, 1923.

ment may lead to a reduction in the real cost of labour. The arguments for a shorter working day may be briefly presented.

(a) Conditions of modern industry impose a heavy strain on the worker, and fewer hours help to alleviate the burden. From the humanitarian standpoint such a reduction is desirable. If the use of machinery is to be socially justified, its introduction should be accompanied by a curtailment of working hours. Labour-saving machinery belies its name if the hours and strain of the operative are not reduced. Unfortunately, the term "labour-saving" is often taken to mean the power to dismiss a number of operatives and to work the remainder as hard as ever, if not actually harder.

(b) The effects of working hours and conditions must be viewed over a number of years. A man may for a time work on a strenuous task for a dozen hours or more per day, but his physique is liable to be so damaged that the length of his working life is less than that of a man whose hours are more reasonable. So long as there is an ample reserve of labour from which to draw, the ill-effects of this rapid consumption of labour-power may not be immediately evident, so far as the profits of the particular firms are concerned. In the long run, however, the community at large must suffer. From the purely economic as well as the social standpoint, these excessive hours are to be deprecated. The long working days, multiplied by a short working life, are less productive, in the aggregate, than shorter working days, multiplied by a longer working life.

(c) The prevention of undue fatigue increases the efficiency of the operative. "Fatigue is a chemical process, and an overtired person is literally a person poisoned by his own waste products."\* Numerous experiments have been

\* U.S.A. National War Labour Board, *Memorandum on the Eight Hour Working Day*, p. 90.

made to ascertain the number of hours necessary to yield the maximum output. An investigation carried out during the war by the Ministry of Munitions\* showed that the maximum output was obtained from heavy labour in 56 hours or less per week; from moderately heavy labour, 60 hours or less; from light labour (such as tending semi-automatic machinery), 64 hours or less. These results, however, cannot be taken as typical. The war period was exceptional, while the tests were applied only to the fittest persons. The hours for maximum output in normal times by the average worker would doubtless be considerably below these figures, especially when regard is paid to the effects on the worker's physique and efficiency over a long period.

Reports of the Home Office investigations into industrial fatigue bear out the contention of greater efficiency resulting from a shorter working day. In one instance the output of a group of workers was increased by 5 per cent. following a reduction of  $16\frac{1}{2}$  per cent. in working hours. In a second instance the unit output was increased from 262 to 276 when the hours were reduced from 12 to 10; and further increased to 316 when the hours were reduced to 8. It was also shown that where the factory day consisted of four working periods, the output was low during two of them, *viz.*, early morning and overtime.

(d) Other advantages arise from the reduction of fatigue. The liability to accident and disease is diminished. The worker's character as well as his physique is improved, and the extra hours of leisure can be devoted to educative and recreative employment which is almost impossible when the working day is long and exhaustive.

(e) Organisation is often improved, while employment

\* *Reports on Working Conditions—Health of Munition Workers*, (Cd. 8344) pp. 9-10.

tends to be more regular. Where there are no restrictions on hours, periods of strenuous overwork may alternate with periods of idleness. A shorter working day induces the employer to distribute the work, so far as lies in his power, more evenly throughout the year. In some trades the curtailment of working hours is followed by the introduction or the re-arrangement of shifts. Men are employed fewer hours, machinery is worked longer hours. Since newer devices are constantly being invented, machinery tends often to be scrapped before it is properly worn out. The shift system makes fuller use of machinery and reduces standing expenses in terms of output. The economies thus gained may compensate for the loss, if any, in the individual worker's output, consequent upon a reduction of the working day. Even if the specific output is less than it was before, the economies in overhead expenses may make it possible for the employer to pay the same weekly wage as hitherto. Thus, in so far as a reduction of working hours leads to greater efficiency of the workers, or to economies in organisation, or to both, the improvement should not be at the expense of wages.

(f) A popular contention is that a shorter working day would provide work for many of the unemployed. This argument must be treated with caution. Where, owing to greater efficiency of labour or improvements in the organisation of the firm, the curtailment of hours does not cause output to decline, the selling price of the product remaining the same, there is obviously no demand created for extra labour. But in those cases in which the shorter working day actually leads to a reduction in the net cost per unit produced, and this is followed by a lower price and a greater demand, the result may be an additional demand for labour. Again, where the work is on a time basis, as on the tramways and railways, and assuming that no further economies

are possible in the organisation of the concern, a reduction in hours usually provides an opening for additional labour, though in this case there may be an increase in the net cost of production, which may react on the price of the service and therefore adversely affect the demand for labour.

The U.S.A. National War Labour Board in its *Memorandum on the Eight Hour Working Day* sums up the case for a reduction in working hours as follows: "The universal experience of those manufacturing countries which have the longest and the shortest working day indicates that commercial prosperity is not hampered by the curtailment of hours, but, on the contrary, the increased efficiency of the workers, due to shorter working hours, together with general improvement of industrial communities in physique and morals, reacts favourably upon output. An abundance of testimony, covering experience in the United States, tends to show that shorter hours heighten efficiency, which springs from improved physical health and energy, together with a change of attitude towards work and employers. The curtailment of hours acts as a stimulus to heightened efficiency on the part of employers, leading them back to lessen or eliminate 'lost time' by securing a steadier flow of work and materials through the factory."

Night work is notoriously inefficient, and can only be defended in time of emergency or when exceptional conditions make it imperative, e.g., work at the blast furnaces which must be kept constantly burning. Investigations have generally shown that the output during the night, especially during the last few hours, is considerably less than during the day. That the output should suffer both in quantity and in quality is not surprising when one pays regard to the detrimental conditions almost inseparable from night work. The worker does not, as a rule, get the necessary minimum

**Night Work  
and Overtime.**

sleep, while the unusual meal-times affect his digestion and health. The lighting is seldom conducive to the best standard of work where detail and quality are of first importance, and supervision is not, on the average, as effective as during ordinary working hours. Against this, the employer reckons the economy of making fuller use of his machinery, and other savings in overhead charges. He may be prepared to suffer a certain loss in output per hour if this is more than balanced by the gain in other directions. But this preference, where it exists, is discounted to a certain extent by the workers' demand for extra rates of pay for the hours they put in at night.

Somewhat similar considerations apply in the case of systematic overtime. There is the same adverse effect on the health and efficiency of the workers. Not infrequently the damage to the physique, resulting in loss of time and perhaps in a shorter working life, nullifies in the long run the economies effected in the short period. Some overtime it is difficult to avoid. Thus, where the supply is periodic, dependent perhaps on climatic conditions (*e.g.* in agriculture), or where demand is seasonal and production cannot be spread over the year (*e.g.* in the making of ladies' winter coats of a particular fashion), extra hours are up to a point inevitable. But systematic overtime throughout a large part of the year cannot be vindicated in this manner, and is particularly objectionable where there is unemployment within the trade.

One reason often given by those employers who practise regular overtime is that the employment of fresh men would involve the installation of extra plant, the cost of which would not be warranted by the business of the firm. This argument, however, has but limited application. Some of the overtime that is now deemed necessary could be prevented by a better organisation which spread the

work more evenly over the year. Judicious planning of production,\* together with the manufacture "for stock," during the customary slack months, of standard articles and parts, would contribute largely to the solution of the overtime problem.†

Investigators in recent years have been giving serious attention to the loss occasioned by "labour turnover," *i.e.* the loss caused by the workers changing their place of employment or their occupation. Labour turnover is very small in such occupations as the Civil Service; it is very prominent where casual hirings are the rule, as at the dock side. It is also prevalent among juvenile workers who are more liable than older and more settled workers to shift from employment to employment.

There are several items in the cost of labour turnover that can be measured to a fairly precise degree. The hiring of the workers entails a certain expense in clerical work alone, and this is sometimes followed by a more costly outlay where the worker is specially instructed in the new task. Where the employee has performed similar work before, this expense does not arise, but where the task is a new one, the cost of instruction may work out at a high figure. Dr. G. N. Miles, of the National Institute for Industrial Psychology, estimates that the cost of training may be anything from £2 to £50, and the period any-

\* Cf. below, pp. 266-7 (note), for an instance of a private firm planning out its production with a view to regularising employment.

† It is maintained in some quarters that the National Health and Unemployment Insurance Schemes tend to encourage overtime, in that the employer has not to make the further outlay on stamps that would be necessary if he engaged additional men. But the saving, in proportion to total sums involved, would be almost negligible.

thing up to three months.\* Further, there is the cost of wear and tear and of spoiled work during the period of training, contributing to a reduction in the net output. In addition, account has to be taken of the loss (*e.g.* in respect of overhead charges) during the intervals between the departure of one worker and the setting-on of another. An American investigator has calculated that the total turnover cost in industry is on the average about 9 per cent. of the wages cost.† While the percentage naturally varies from industry to industry, and between one class of labour and another, it is in most cases sufficiently high to demonstrate the need for reducing the cost as much as possible.

Some turnover is inevitable, such as that caused by death and ill-health ; while the expenditure in training workers for higher positions is to be encouraged rather than restricted. But the expense in connection with hiring, temporary loss of output, etc. is a net loss, a reduction of which would be of real advantage to all parties. The burden cannot be removed by any single remedy, but it can be considerably lightened by such means as a better industrial training and by an improved system of hiring and remunerating the workers.

Much attention has been given in recent years to  
**Scientific Management.** “scientific management,” which may be defined as that branch of industrial organisation which attempts to regulate the methods adopted by workmen in the performance of their tasks so as to secure a given result for the minimum of effort. It has to be distinguished from commercial policy, which is concerned with the character and extent of production, and

\* Cf. P. Sargent Florence, *Economics of Industrial Fatigue* (1924), p. 141.

† Quoted in P. Sargent Florence, *op. cit.* p. 159.

from technology which relates to the mechanical agent of production.\* Scientific management attempts to regulate the human factor in industry ; it is based on the study of the operations involved in a particular task with a view to ascertaining the minimum number of motions and length of time necessary for its performance. Motion study and time study are therefore integral parts of the system. Motion study is undertaken in order to attain economy in method ; time study has largely for its object the adjustment of wages. Obviously scientific management is likely to be more successful when applied to manual and repetitive operations than in the case of mental and individual tasks.

As an instance of motion study, one may quote the analysis of the operations in the laying of bricks.† The height of the mortar box and brick pile was studied, and then a scaffold, with a table on which to place the materials, was designed so as to prevent unnecessary movements of the bricklayer. The scaffolds were made adjustable as the wall grew in height, and the worker was spared the exertion of stooping down to the level of his feet for each brick and trowelful of mortar. “ Think of the waste of effort that had gone on through all these years, with each bricklayer lowering his body, weighing say 150 pounds, down two feet and raising it up again every time a brick (weighing about 5 pounds) is laid against the wall.”

The same principle is adopted in the factories. Experts make careful study of the different operations and attempt as far as possible to standardise the motions of the workers. The work of each man is planned in advance, and detailed instruction schedules are issued to every worker, who is

\* Cf. Sir William Ashley, *Scientific Management and the Engineering Problem* (Sidney Ball Memorial Lecture, 1922) pp. 6-7.

† See F. W. Taylor, *The Principles of Scientific Management*, p. 78, for analysis made by W. Gilbraith.

told how the task is to be performed and the length of time that has to be taken. The ordinary foreman is largely replaced by the "functional foreman," who teaches the workman the proper methods and motions, and ensures that the work is performed in the allotted time. Various other duties are performed by the "functional foreman" according to whether he is the "gang boss," the "speed boss," the "repair boss," the "route clerk," the "instruction card clerk," the "shop disciplinarian," or the "general inspector."

The advocate of scientific management maintains that it is of advantage to the worker as well as to the employer. He views both the mechanical and the human aspects of the new type of organisation, and concludes that there is no reason why all classes engaged in production should not benefit from the economies and improvements in management. The most obvious advantage is the additional output that follows a more intensive and better directed division of labour, and a fuller utilisation of plant and capital resources. A ten to thirty per cent. increase is said to be the rule, while a hundred to two hundred per cent. increase is claimed to be not uncommon.\* This leads of course to a fall in the cost of production per unit, and, given competitive conditions, the consumer will benefit largely by the greater economies in production.

The increase in quantity is not at the expense of quality, for adequate safeguards are imposed; in many cases the quality of the work actually improves. The system is also claimed to facilitate the selection of the most efficient workers with a view to training them for the higher posts. And, since it is no longer necessary to give instruction in more than a single highly specialised task, there is a sub-

\* Cf. H. H. Farquhar, *Quarterly Journal of Economics*, May, 1919.

stantial reduction in the cost of labour turnover in terms of output.

In short, scientific management is regarded in the same way as scientific machinery. Mechanical innovations have developed, in spite of the drawbacks, because they meant an economy of effort and a net addition to the community's wealth. Scientific management, it is contended, is equally advantageous and no less inevitable.

"The useful results have hinged mainly upon (1) the substitution of a science for the individual judgment of the workman ; (2) the scientific selection and development of the workman, after each man had been studied, taught, and trained, and one may say experimented with, instead of allowing the workmen to select and develop in a haphazard way ; and (3) the intimate co-operation of the management with the workman, so that they together do the work in accordance with the scientific laws which have been developed, instead of leaving the solution of each problem in the hands of the individual workman. In applying these new principles, in place of the old individual effort, to each workman, both sides share almost equally in the daily performance of each task, the management doing that part of the work for which they are best fitted, and the workmen the balance." \*

The increased productivity of the worker, concludes the supporter of scientific management, results in higher wages and better conditions of employment. Reduction in working hours without a fall in the standard of life is thereby made possible. The calculation of wage rates, in such a manner as to vary with efficiency, guarantees the workers against unfair cutting of wages, and is held to strengthen the bond of co-operation between the worker and the employer.

\* W. Taylor, *The Principles of Scientific Management*.

The critics of scientific management do not, as a rule, dispute the purely material advantages of scientific management. They admit that, to the extent that it intensifies the specialisation of function, and standardises the mode of operation, it may result in greater output and reduced expenses of production per unit. The objections, as will be seen from the following, are deeper than mere considerations of wealth production; they are concerned primarily with the welfare and status of the worker.

**Objections to  
Scientific  
Management.**

It is objected at the outset that where scientific management is bound up with efficiency rate of payment, there is no necessary connection between a scientific organisation of production and the employment of special systems of remuneration. Payment is not made on a satisfactory basis of output or effort, and the entire principle is condemned therefore as "fundamentally unscientific."\* From this it should not be inferred that ordinary methods of remuneration are any more "scientific" than the schemes under examination. The critic of scientific management and its "fancy" systems of payment may be equally opposed to the comparatively straightforward methods of remuneration. He objects to the use of the word "scientific" in connection with the Halsey, Rowan and similar plans,† because the term is calculated to give an impression of a just reward in accordance with effort and output.

It was shown in the previous chapter that a drawback of such methods of payment is that the worker does not get the full benefit of any extra effort the system might evoke, and that the application of the "scientific" method may be very one-sided in its results. But even if the intention were to distribute the product fairly among the

\* Cf. G. D. H. Cole, *The Payment of Wages*, pp. 76-9.

† See pp. 97-100.

employers and the workers, that would not solve the initial difficulty of measuring the specific productivity of the several agents of production. The claim that scientific management would make a just distribution of the net product is therefore not warranted.

Secondly, it is objected that scientific management is liable to abuse. The control is entirely in the hands of the employer, and the fear is expressed, and in some cases with justification, that while the operations of the worker are simplified as regards motion and method, the inevitable speeding-up soon brings physical exhaustion. Even the tending of semi-automatic machinery is conducive to severe mental strain, especially where the machine sets the pace. Nor is it merely a question of bodily fatigue. Work that is subdivided, standardised and repetitive must as a rule be monotonous. While some labourers do not appear to resent the dull routine, especially if the wages are higher, there are others who are more sensitive to the nature of the work they are engaged upon, and sooner or later the revulsion they feel towards their mechanical operations manifests itself in inferior work, if it does not actually result in physical breakdown.

Thus scientific management, where it is abused, is to be criticised from the industrial as well as from the social standpoint. In so far as the quality of the worker is reduced and his working life shortened, the economic efficiency of the community is impaired, and scientific management thus defeats its own ends. But perhaps more serious is the degradation of the worker from a human being to a mere automaton. The opponent of scientific management urges that there is plenty of opportunity for organising inanimate things before proceeding to standardise man himself.

Thirdly, and partly arising out of the previous considera-

tions, is the objection that scientific management is undemocratic in its aims and principles. The workers have practically no voice in the administration of the schemes, and abuses may go unchecked. Where it is linked up with a special system of payment, scientific management is criticised for being purely individualist in its appeal, and trade unionists fear that the system, if extended, will be prejudicial to the principle of collective bargaining, which is virtually surrendered where the rates are arbitrarily fixed by the employers or their representatives dealing with individual workmen.

The claim that scientific management encourages co-operation between employers and employed is strongly disputed, the critic maintaining on the contrary that the gulf between labour and management is seriously widened. For example, the functional foreman, though he may be drawn from the ranks of the workers, becomes more identified under scientific management with the interests of the employers; and management, it is contended, becomes more autocratic than ever.

It is evident, even from this brief review, that much can be said in favour and in criticism of scientific management. Yet in a sense there is nothing really new in the idea, for improvements in the internal organisation of businesses have been constantly effected from the beginning of industry. The most elemental division of labour was a form of scientific management, and the conditions of to-day demand a still further specialisation. New methods of organisation, whether they are termed "scientific management" or not, are being incessantly applied, and it would be folly to attempt to suppress them all indiscriminately.

But where scientific management is carried to extremes and the human being is deprived of all feeling of individuality and power of initiative, the net advantage is not so

certain. To measure the success of scientific management by the volume of goods produced is not enough, for the social loss may more than offset the economic gain. Like other forms of invention, scientific management under judicious control could be of real benefit to mankind. Provided that the necessary safeguards are employed, and that scientific management is confined to its proper function of securing a given output for the minimum of effort, there is no reason why the improved organisation should not be to the general advantage. But when one considers the use made of scientific management in relation to methods of payment, the connection does not seem clear or justifiable. Elaborate organisation and the detailing and standardising of tasks do not, of themselves, indicate the specific productivities of different workers, and of labour as a whole compared with the other factors of production. The operation of such schemes has not caused any visible improvement in the mode of distribution, while many workers have been given reason to suspect the "science" that lies at the back of these systems.

With the development of the factory system, the personal relationship found in the earlier systems of production grew weaker, and where the joint-stock company took the place of the individual employer, the personal element practically disappeared. The employer, whether an individual or a company, might provide the workpeople with certain amenities, but the extent and organisation of the firm became so enormous and complex that the full provision and proper administration of these faculties could not always be ensured. Recognition of the need for some department, concerned with the human, as distinct from the profit-making, activities of a business, led to the establishment of the welfare department.

**Welfare  
Work.**

Welfare work has been defined as the "efforts on the part of employers to improve, within the existing industrial system, the conditions of employment in their own factories."\* It had been instituted by some employers in the late nineteenth century, but it was not until the war that it reached its present vogue. The stimulus was largely due to the increased number of women taken into industry (not that men are excluded from the schemes), and to the recognition that even the strictest observations of the Factory Acts did not provide really good conditions for the workers.

In 1916 a certain measure of welfare work was brought within the Factory Acts, but several employers supplemented the compulsory provisions. The advocates of welfare work set out to obtain a higher minimum of comfort and other amenities than that enforced by legislation. Their motives were not primarily, if at all, philanthropic. Many employers frankly favoured the plan because it was to their economic advantage. It was recognised that better conditions and surroundings improved the workers' efficiency, and that the financial outlay was usually more than balanced by the greater output. In America, the science of "personnel administration" (as welfare work is termed there) has secured many adherents essentially for this reason.

The first object of the welfare department is to ensure that the working conditions are as safe and healthy as the occupation permits. The works must be well ventilated, heated, etc., and rest, recreation, games and sports and social facilities should be adequately provided. Medical and dental services should be freely supplied. (A few firms medically examine all workers, but this practice is usually deprecated as an unwarrantable interference with the in-

\* Proud, *Welfare Work*, p. 5.

dividual worker's liberty.) Education, both general and technical, should have a place in the welfare scheme, and with this should be coupled an arrangement for securing promotion for workers qualified to take high positions. In many firms the welfare department is empowered to engage workers, subject to the final decision of the departmental manager. Selecting suitable workers is a task which is only too frequently left to ill-equipped officials. Numerous other activities are added to the scope of welfare work, according to the policy of individual firms. While in some factories the operations of the welfare department are limited to the securing of discipline and the supervision of simple working conditions, in other concerns they go so far as to have some voice in regulating wages and hours, and in dealing with grievances and discharges.

Though welfare work has done, and may continue to do, good service, its function is necessarily limited. The fact that the welfare department is appointed and paid by the employer frequently arouses a degree of suspicion in the minds of the workers. "Girls object to even a good welfare supervisor, because they think her goodness will not last, and they wonder what her game is."\* There is a feeling among many workers that welfare schemes are prejudicial to trade unionism. Rightly or wrongly, they suspect a welfare supervisor who does not belong to their own class, particularly if she (or he) happens to be related to the employer. The fear has also been expressed that unless the workers are on their guard, "welfare" may be substituted in effect for part of the wage.

The resentment would certainly be justified if welfare work were made a disguise for an insidious type of scientific management. Whether this suspicion is warranted de-

\* Report of Women's Conference 1917, quoted in Webb: *The Works Manager To-day*, p. 143.

depends on particular employers and circumstances. The admission of many employers that they find welfare work a paying proposition is not in itself a reason why the workers should object to its introduction, provided that the scheme is mutually advantageous. But there is always the fear that an employer, if he has sole power over the welfare department, may use it too much to his own advantage. It appears desirable, therefore, that the control of welfare work should be vested in a body on which the workers are adequately represented.

## CHAPTER VI.

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### WOMEN'S WORK AND WAGES.

Women have always been engaged in industrial activities, though they played a less important part before the Industrial Revolution than after.

**Women in Industry.**

In the so-called domestic system of production women, besides carrying on the ordinary home duties, had assisted the male members of the household in such occupations as agriculture, spinning and weaving. Frequently they were given home work directly by the capitalist middleman, and "outside" employment of women in the textile trades and in the mines was not uncommon.\*

With the industrial changes of the late eighteenth and early nineteenth centuries, the number of women who took up outside employment greatly increased. The introduction of the new machinery meant a falling-off in the demand for the skilled hand-workers, whose places were taken by semi-skilled operatives, many of them women. Male workers had to face the competition of women as well as

\* The mistake is often made of assuming that there were no large-scale enterprises before the eighteenth century, that a number of wage-earners were rarely collected under one roof, and that practically all employment was domestic. There is ample evidence to show that an elementary factory system existed before the Industrial Revolution.

that of the machinery. The women both gained and lost by the new state of affairs. They suffered frequently in being subjected to unsuitable employment and unhealthy conditions, with serious effects on their physique. On the other hand, the transition from the home to the factory was sometimes advantageous. Working in a factory, free from interruption and with regular hours and intervals, was usually found preferable to working in the living-room at home. The separation of the home and the place of work was, on the whole, a good thing, especially when factory legislation regulated working hours and insisted on minimum conditions. Women gained also in that they secured a greater measure of economic independence than was possible when they worked at home. Where in the older system the women had joined in the general industrial activities of the household, there had probably been no direct remuneration at all; where they were employed in the home by an outside employer, only part-time wages could usually be earned. Under the factory system, full-time remuneration—though still pitifully inadequate—provided an independence hitherto denied to the working woman.

The nineteenth century witnessed a large addition to the number of women working for wages, while the scope of their employment also increased. Though industry and domestic service absorbed the greater part of women workers, new opportunities offered themselves in the growing commercial and distributive trades. In July 1914, out of a female population (excluding children under 10) of about nineteen millions, nearly a third were in employment. The proportion increased considerably during the war, as is shown in the following table.\*

\* *Report of the War Cabinet Committee on Women in Industry*, 1919 (Cmd. 135), p. 80.

## WOMEN IN EMPLOYMENT, 1914 AND 1918.

Numbers of Women Working.	In July, 1914.	In July, 1918.	In July, 1918, over (+) or under (-) numbers in July, 1914.
On their own account or as Employers ..	430,000	470,000	+ 40,000
In Industry .. ..	2,178,600	2,970,600	+ 792,000
In Domestic Service ..	1,658,000	1,258,000	- 400,000
In Commerce, etc. ..	505,500	934,500	+ 429,000
In National and Local Government, includ- ing Education ..	262,200	460,200	+ 198,000
In Agriculture.. ..	190,000	228,000	+ 38,000
In employment of Hotels, Public Houses, Theatres, etc.	181,000	220,000	+ 39,000
In Transport .. ..	18,200	117,200	+ 99,000
In other, including Pro- fessional employment and as Home workers	542,500	652,500	+ 110,000
Altogether in occupations	5,966,000	7,311,000	+ 1,345,000

Women are still, in the main, employed in those occupations with which they have long been associated. The above table shows the large proportion engaged in domestic service. Of the women in industry proper the textile trades employed about two-fifths, while the clothing trade employed about three-tenths. Women are specially adapted to some of the processes in these trades; but this is not the sole reason for the large proportions found there. Women have been, and still are, excluded from certain occupations, and they tend therefore to concentrate in those industries and callings to which there is free access.

**Relation  
to Men's  
Trades.**

Employments may be roughly classified according to whether they are (a) men's, (b) women's, and (c) composite. Those trades which involve strenuous muscular work are usually confined to men, though exceptions unfortunately are not as few as one would like. Similarly, men are predominant where a long period of training is necessary to secure the necessary skill, women as a rule not being provided with such training. Those occupations in which the work is of a comparatively light character tend to employ a large number of women. Where delicacy of touch is an important requisite, women are often more efficient than men. The third class of occupation is that which has processes, more or less similar, carried out by both men and women. The actual competition between men and women *on identical tasks* tends, however, to be over-estimated, for where they are in the same trade they are usually engaged on somewhat different, though allied, processes. In the cotton spinning trade, for instance, the men are employed on the "mules," while the women tend the "ring spinning" machines. The real competition is encountered where a woman, usually assisted by a labour-saving device, carries out in a new and cheaper manner the task hitherto performed by a man.

Apart from natural inclinations and abilities, the line between men's and women's occupations is very arbitrary. It may be fixed by legislation which prohibits, for example, employment of women in mines, or night employment of women in factories. Custom and prejudice also restrict the sphere of women's employment, though these barriers seem gradually to be weakening. In addition, there is the obstacle imposed by many men's trade unions, the members of which are actuated more by a desire to maintain their standard of life than by prejudice alone. It is significant

## WOMEN IN INDUSTRY, 1914 AND 1918.

Trades.	Estimated number of Females employed in July, 1914.	Estimated number of Females employed in July, 1918.	Difference between numbers of Females employed in July, 1914, and July, 1918.	Percentage of Females to total number of Workpeople employed.		Estimated number of Females directly replacing Males in Jan., 1918.
				July, 1914.	July, 1918.	
Metal .. ..	170,000	594,000	+ 424,000	9	25	195,000
Chemical .. ..	40,000	104,000	+ 64,000	20	39	35,000
Textile .. ..	863,000	827,000	- 36,000	58	67	64,000
Clothing .. ..	612,000	568,000	- 44,000	68	76	43,000
Food, Drink, and Tobacco	196,000	235,000	+ 39,000	35	49	60,000
Paper and Printing ..	147,500	141,500	- 6,000	36	48	21,000
Wood .. ..	44,000	79,000	+ 35,000	15	32	23,000
China and Earthenware ..	32,000					
Leather .. ..	23,100	197,100	+ 93,000	4	10	62,000
Other .. ..	49,000					
Government Establishments.	2,000	225,000	+ 223,000	3	47	197,000
Total .. ..	2,178,600	2,970,600	+ 792,000	26	37	704,000

that women are commonly employed in relatively new occupations in which men have been unable to secure vested rights. Certain kinds of clerical work on the railways are confined to men, though somewhat similar duties are performed by women in commercial and distributive concerns which have sprung up since the railways. Such restrictions tend to swell the number of women in the "free" occupations, often with ill effects on their wages and conditions.

The table\* on p. 127 shows the distribution of men and women in the different trades in July 1914, and July 1918. It will be observed that before the war the textile and clothing trades employed more women than men, whereas in the metal trades the proportion of women was little over one-tenth.

During the war these proportions changed; the actual *number* of women declined in the textile and clothing trades (though the percentage increased), but more than trebled in the metal trades.

In ordinary times, it is found that the proportion of men to women remains fairly constant where the rates of pay are not differentiated according to sex. In the cotton industry, the trade unions have realised the wisdom of pressing for and securing equal rates—in the interests not only of the women, but also of the men, whose standard of life is thus protected from undercutting. On the other hand, where women receive lower rates than men, the proportion of the former tends to increase.

Apart from the cotton and a few other trades, the average rate of women's remuneration is considerably lower than men's. The Board of Trade inquiry into wages in 1906 showed that the weekly earnings of full time workers in the four principal divisions of industry proper were as follows :

Men's and  
Women's  
Wages.

\* *War Cabinet Report*, p. 81.

## RELATIVE WAGES IN 1906.

Industries.	Men.	Lads and Boys.	Women.	Girls.	All Work- people.
	<i>s.</i> <i>d.</i>	<i>s.</i> <i>d.</i>	<i>s.</i> <i>d.</i>	<i>s.</i> <i>d.</i>	<i>s.</i> <i>d.</i>
Textiles .. ..	28 1	10 5	15 5	8 11	17 6
Clothing .. ..	30 2	9 8	13 6	5 9	15 1
Metals .. ..	33 11	10 4	12 8	7 4	27 4
Miscellaneous ..	28 6	10 3	11 7	6 6	21 7

The money wages have, of course, appreciably changed since the date of this inquiry, but the proportions are still significant. The textile trades show the best relative wages for women, though the average rate for all textile workers is less than in the other trades, except clothing. The wages for men in the cotton trades are lower than in the engineering trades, due, to a certain extent, to the smaller number of women in engineering. Where the main industry in a district is confined very largely to men, the rate of pay for women tends to be low; hence the slender earnings of women in agricultural and smaller urban districts. The War Cabinet Committee summed up the general tendencies governing pre-war wages for men and women in the following terms:

“As a rough generalisation it would be true to say that the higher earnings of women as well as the closer approximation to the earnings of men were found in those trades which were paid on piece and in which the work done by men and women was most similar, while the low rates and the greater disparity occurred in the male occupations in which women provided only subsidiary and subordinate services, being classed in fact with boys and lads. Women get low wages when working at the bottom of industries

that are mainly male, and men get high wages when working at the top of industries that are mainly female. Taking all classes together, the 1906 figures given above show the average earnings of women to have varied from a little over half those of men in the textile industries, where their work was most akin, to three-eighths in the metal industries, where it was probably most differentiated."\*

An unofficial estimate of the wages in 1912 gives 10s. 10½d. for women and 25s. 9d. for men.† The average woman's wage in 1914 was probably two or three shillings higher. For that year "3d. an hour may be called a normal time rate for female labour, 5d. for unskilled male labour, and 6½d. or 7d. for all male labour."‡

Turning from industry proper to other occupations, it is shown that in domestic service the real wages of women were slightly higher, the proportion to men's work for similar service (where comparable) being about one half. In the distributive trades, the work being more similar, the inequality of wages was rather less, the women getting two-thirds or three-quarters of the men's wage. In teaching and professional work there was the nearest approximation to equality, though even here the difference was appreciable.§

A study of women's wages must have reference to artificial and traditional restrictions on their employment, which, although weakening with the progress of time, are still far from negligible. On the other hand, there are certain characteristics of female labour which make it unlikely that the remuneration will ever be as high as men's, except in those occupations for which women seem

Reasons for  
Low Rates  
of Women's  
Wages.

\* *War Cabinet Report*, p. 67.

‡ *Report*, p. 68.

† *Labour Year Book*, 1916. § *Ibid.*, p. 69.

peculiarly suitable. The main causes of the low rates of payment to women may be briefly indicated.

(i) *Less physical strength.* The fact that women are on the average physically weaker than men prevents them from performing arduous tasks, and helps to concentrate them in occupations of a lighter character. The difference in physical application is specially marked in those cases in which women have to distribute their energy over domestic duties as well. Female labour is not generally as regular and stable as male labour.

(a) **Conditions of Supply.** (ii) *Insufficient training.* The absence of adequate training frequently makes it impossible for women to undertake superior work. Tradition and the expectation of marriage are largely responsible for the lack of training, and a woman's application while at work is influenced to a certain degree by the knowledge that her years in the factory or office are, as a rule, of a "meantime" character. Yet the influence of possible marriage must not be over-rated, for a long period of apprenticeship in the textile trades, dressmaking and millinery, etc., is not uncommon. It is the quality rather than the length of training that is insufficient; some so-called apprenticeship is merely a means of securing cheap labour.

(iii) *Lack of organisation.* It is indisputable that men's wages have in many cases been raised through effective organisation, and that the absence or inadequacy of women's unions is directly responsible for much of the underpayment that still exists. Here again, the incidental manner in which many women view their work presents an obstacle. A further difficulty is presented by the large number of home workers, who are in some cases almost impossible to organise. But trade unions are often handicapped because of the low wages; experience of

statutory minima has amply demonstrated that once the worker is provided with the prime necessities of life he or she is in a better position to build up an efficient organisation and raise the wage still further.

It has been previously noted that men's unions in several cases impose restrictions, which help to drive women into occupations in which an old-established union of male workers does not exist. Organisation of women is doubly necessary, if they are to receive fair treatment in the closed trades, and prevent the employers from taking advantage of their crowding into the other occupations. The number of women in trade unions increased from 10,000 in 1876 to 360,000 in 1914. During the war, the membership increased to over a million, though in the subsequent years of depression there was a certain falling-off.

(iv) *Less mobility.* While the mobility of male labour is far from perfect, it is, on the whole, easier to secure than that of female labour. Women tend to become more "settled" than men, and to be more influenced by personal and sentimental ties; their freedom to move about the country is also more restricted. This relative immobility is largely the reason why a shorthand-typist may get a much higher wage in one part of the country than in another.

(v) *Lower subsistence and fewer dependants.* It is true that the average working woman spends less on means of sustenance than the average working man. But it is equally true that the difference in their expenditure does not measure the difference in their needs. The popular conception that the woman requires less is mainly attributable to the fact that she has been compelled by circumstances to do with less. And when one considers the amenities of life which are more "necessary" to women than to men, the difference between the respective standards of comfort becomes very small. Also, though the average

male bread winner has more dependants, the number of women who have only themselves to keep tends to be magnified; the percentage of women with aged parents and others to maintain is higher than often supposed.\*

But, in any case, as was shown in the discussion as to the theoretical determination of wages, it is productivity

\* There is considerable difference of opinion as to the actual extent of women's responsibility for dependants. In 1919, Mr. Seebohm Rowntree and Mr. F. D. Stuart made an inquiry into the question, investigating conditions in eleven towns. The following table, taken from *The Responsibility of Women Workers for Dependants* (1921), shows their conclusions.

Age groups.	Total Women Workers Investigated.	Women Workers with Dependants.	Percentage of total women workers.
18-20	4,970	369	7.42
21-25	4,503	464	10.32
26-30	1,843	297	16.11
31-35	685	166	24.23
36-40	725	203	28.00
41-50	584	114	19.54
51-60	227	26	11.45
over 60	100	6	6.0
Total	13,637	1,645	12.06

With special reference to *adult* dependants, the results work out at an average of 0.17 of an adult dependant per working woman. On the other hand, the inquiry of the Fabian Women's Group showed that 51.13 per cent. of the women workers had dependants, each woman supporting on the average 1.75 of an adult. The dissimilarity of the results is doubtless due to the different standards taken and to the different methods of inquiry and calculation. Further, both investigations were limited in scope and area, and a more comprehensive survey is necessary before satisfactory results can be obtained.

rather than needs that determines the rate of remuneration. The married man with a family has a greater need than a bachelor, but his wages are not governed by this consideration. Similarly, while the lower needs of women may be a contributory factor, it is not the only, or even the main, determinant of their remuneration.

(vi) *Subsidy to earnings.* Though the number of "pocket-money" workers is liable to exaggeration, it should not be ignored. Some women take up employment in the office or factory, not primarily to earn the maximum possible, but to escape from domestic work or merely to have "something to do." In the absence of safeguards the wages tend to be depressed where a proportion of the workers do not regard their remuneration as the main object. Even where the woman living with her parents pays the equivalent of her board and lodging, there is really a form of subsidy in so far as she finds the cost much less than if she were independently supporting herself. The competition of married women whose husbands are earning relatively good wages is a more serious matter, particularly where there is unemployment among single women capable of doing the same work.\* Some employers, especially education authorities, have gone so far as to dismiss the married women employees (where the husband was earning sufficient money) in order to relieve unemployment among the unmarried women.

So far, the conditions of supply of female labour have been considered, but the conditions of demand are equally important.

\* A recent inquiry into women's employment in the principal trades of Worcester showed that the number of unemployed single women was approximately the same as the number of employed married women whose husbands were earning sufficient wages to secure a decent standard of comfort. Doubtless the conditions of Worcester are exceptional, but the fact is not without significance.

(i) *Nature of work.* To the extent that women are employed in occupations that require less skill and responsibility, they necessarily in the present system receive a lower rate of remuneration than men. Women in industry tend, with notable exceptions, to perform subordinate tasks, including the operation of semi-automatic machinery. This is largely due to insufficient training and other peculiarities indicated above.

(b) *Conditions of Demand.*

(ii) *Greater expenses of employment.* Many employers have attempted partly to justify, or at least to explain, the relatively low wages of women, on the ground that the Factory Acts and other conditions make it comparatively expensive to employ women. Capital has to be expended in fencing machinery, providing rest rooms, etc., which are not so imperative where men are employed. This argument, however, is slight vindication of the lower rates of pay, because an increase in the nominal expenses is usually accompanied by a reduction in real costs. The efficiency, and therefore the output, of the women workers is increased, and, quite apart from the humanitarian motives, the extra outlay in providing these safeguards and amenities is more than justified on economic grounds alone. Where, however, the inferiority of women's labour means greater expense in overhead charges (such as the cost of providing more workshop space, or setting up more machines), a certain deduction has to be made before arriving at the net cost of the output.

(iii) *Lack of appreciation.* Not only do men frequently under-rate the economic services of the other sex, but women themselves tend, on the average, to undervalue their own work. This largely arises from the incidental view taken by most women of their employment. The War Cabinet Committee quote in their Report\* the opinion of different

\* P. 70.

witnesses to the effect that working women ask and expect little for themselves ; that while women are more sensitive than men to factory conditions and environment, they are not in general concerned as much about their wages. " An experienced trade unionist stated that one reason against paying equal time rates to women was the fact that women themselves did not expect it." This under-estimation on the side of supply is accompanied by a similar lack of appreciation on the side of demand. Employers, especially before the war, have failed to realise the potentiality of female labour, and this has naturally affected the remuneration they offered. The war was a revelation to many employers, who are now more appreciative of women's economic value than formerly.

(iv) *Less demand.* Arising from these and other considerations is the essential reason that women are less in demand than men. The restricted number of occupations to which women have had access has been shown to be a serious factor in governing their remuneration. For reasons of both custom and efficiency, employers prefer to employ men, unless there is an obvious advantage to be gained from the employment of women. The employers find this advantage, as a general rule, in the lower wages which women are prepared to accept. While men do not always get in wages the real worth of their services, their remuneration approximates more closely to the value of the specific output than do the wages of women.

The principle of " equal pay for equal work " has secured many adherents among men as well as women workers. Though supported by the Majority of the War Cabinet Committee,\* it was rejected by Mrs. S. Webb, the author of the Minority Report, but only on the grounds that there is

" Equal Pay  
for Equal  
Work."

† See Appendix B.

no generally accepted meaning of the formula, and that evasion is so easy.

It has been variously taken to imply (1) equal pay for equal effort and sacrifice, (2) equal pay for equal product, and (3) equal pay for equal value to the employer. The first interpretation is necessarily very inexact, for effort and sacrifice cannot yet be properly measured ; and if they could be estimated, it is a very doubtful principle to work upon, for labour may turn out to be fruitless, through no fault of the worker himself. Some men workers take this view of the principle, without troubling to discover its precise meaning, simply because they believe it would keep women out of industry.

The second interpretation of the formula is more common. The amount and quality of the output are taken as the measure, irrespective of the efforts and sacrifice made by the different workers. A good example of this is found in the cotton-weaving trade where there are equal piece rates (not time rates) for men and women. There is much to be said for the principle of equal pay for equal product, especially if the workers are not at a disadvantage in bargaining power. If the workers' organisation is weak, the principle is liable to deteriorate into one of individual bargaining, and result in the undermining of the standard rate.

The third interpretation comes from the employers' side. The output per worker, it is maintained, is not a satisfactory index of value to the employer, for, in so far as the employment of women involves higher standing charges for interest on plant, depreciation, rent, supervision, etc., the net value of women's output is diminished. Thus even the piece rates would have to be differentiated to this extent. Evidence is quoted in the Report to show that, if equal piece rates are paid, "women will be ousted from the

factories because their output is practically one-third less." It is stated, however, that in many factories women are paid by the day in order to prevent the question of differential piece rates arising.\* Another argument in favour of lower rates is the inferiority of women in emergency, men being more capable of dealing with a breakdown, or taking up external duties as occasion requires. This objection diminishes in importance as the specialisation of functions becomes more intense. With the development of special repair and emergency sections, it becomes unnecessary for the worker to undertake extra tasks, even where he or she is capable of performing them.

Apart from the ambiguity of the formula, a serious obstacle to its general application is the comparative ease with which it can often be evaded. One method, the payment of women on a time basis only, has been mentioned. Another device is the deliberate "de-grading" of tasks on which women are exclusively employed. The slightest difference in the nature of women's employment is taken to justify the payment of a lower rate, and the absence of male workers on the identical task makes protest ineffective.

Nevertheless the doctrine of "equal pay for equal work" is not without value, and might be re-worded so as to secure less ambiguity. The National Federation of Working Women translate it into "equal pay for the same job,"† and though this phrasing is not as "watertight" as one would like, it is more definite and leaves less opportunity for evasion than the older formula. The adoption of the essential principle would, on the whole, benefit men as well as women, for the displacement of men by under-paid women would undoubtedly diminish.

\* *Report*, pp. 269-7

† Cf. B. Drake, *Women in Trade Unions*.

The nineteenth and twentieth centuries have witnessed a growing acceptance of the principle of a national minimum. The State compels certain minimum conditions in the factories and shops ; it enforces minimum periods of rest by restricting the working hours ; in recent years it is tending increasingly to fix minimum rates of wages. The early legislation dealt with women more than with men, though the restrictions on the employment of one class of workers necessarily affect the other workers. The limiting of women's working hours, for example, indirectly served also to cut down the men's working day, especially where both sexes were employed in one factory, and where it would have been uneconomical for the machinery, heating, etc., to be kept going for only a portion of the workers.

The possibilities and difficulties of a national minimum, equally applicable to everybody, were considered in Chapter IV., and it is not necessary to repeat the economics of the problem. The further question arises, should the minimum, whether for the industry or for the nation, be identical for both sexes? Since the national minimum is designed to prevent a person's income from falling below subsistence rather than to raise it to provide a decent standard of life, the question resolves itself into the respective requirements of men and women.

If it is admitted that a woman requires as much as a man—taking all necessary expenditure into account, not only outlay on food—there is a strong argument for equal minima. Mrs. Webb denies that “there is any recognisable difference between the necessary cost of maintenance in health and efficiency of a man of 21 and of a woman of 21.”\*

\* *War Cabinet Report*, p. 274.

If, on the other hand, the needs of the two sexes are demonstrated to be different, the minimum rates, so far as they can be said to depend on needs, might vary accordingly. Actual wages, however, are not determined by needs to the extent that this argument would imply. As already shown, the factors determining wages are numerous, and the only part played by subsistence is to fix the lower limit. But it happens occasionally that women workers are subsidised from home or do not view their wages as the first consideration. They may be willing to accept less than the minimum subsistence wage, and so depress other women's wages. The national minimum would serve a useful purpose here.

So far the problem of family obligations has been ignored. Even if a man consumed no more than a woman, it is undeniable that, making all allowance for the large number of women who have dependants, the average man has a larger number of persons to support than the average woman. The dependants are to a small extent adults, to a large extent juveniles. The support of the adults, contends the writer of the Minority Report, should not necessarily be a private function; the State already recognises its obligations of this character, and embodies them in the Old Age Pensions Act and the Insurance Acts. The principle, it is urged, should be further extended. With regard to children, an essentially different method from that of to-day should be adopted. There might be a central fund consisting of employers' contributions and Government grants, out of which the worker's income would be made up according to the number of dependent children. Or the State might adopt the more courageous plan of direct endowment of motherhood, and bear out of taxation the social responsibility for the children. This and allied schemes are considered below.

The writer of the Minority Report speaks for a growing body of opinion in suggesting the adoption of a new or supplementary method which would make the occupational rates correspond more than they do at present to relative efforts and needs.

Closer Relation  
of Wages  
to Needs.

“It seems that the problem is not to be solved merely by an adjustment of the relative rates of wages of men and women respectively. Men and women in industry are, in fact, ceasing to be distinct classes, even if they ever were, and are more and more becoming merged in the armies of the skilled and the semi-skilled, each of them divided into numerous sectional grades. The great majority of the organised women workers are members, not of women’s trade unions but of trade unions common to both sexes, either “skilled” or not. It is already plain that the internequine struggles of the trade union world will take the form, not so much of conflicts between men and women workers, as of the rivalry between the sections classed as skilled and those classed as “semi-skilled,” largely irrespective of sex. It appears to be indispensable, alike to stability and to the prevention of unrest, that the chaos of earnings should be reduced to some sort of order.

“There is now a widespread recognition of the paramount importance of providing for needs. The physiological needs of adults may differ according to the character of the work—the steel-smelter, for instance, may require more food than the agricultural labourer—but no worker needs ten times as much food as another. The housing requirements of various sections of workers may differ; but the essentials of a home, including a suitable environment for the next generation, are common to all families. Democracy implies a common standard of education and manners.

“I conclude therefore, that the basis of any general

adjustment of occupational rates must assume the form of a closer correspondence of the several rates to the efforts and needs of the various sections.”\*

The way in which the closer correspondence between occupational rates and relative efforts and needs can be effected is subject to a variety of opinion. Some would make the maintenance of dependants an industrial charge ; others would make it a social charge. Of the two the second seems more feasible and practicable. But whatever line of thought one follows, one must recognise the deficiencies in the present system of remuneration. The subject needs careful and thorough investigation before a reasonably satisfactory scheme can be evolved. Some would go further and urge that no doctoring of the wages system can ever bring a real remedy, short of a surgical removal of the wages system itself, which would involve more than the mere overthrow of the capitalist order of production. State Socialism, in the eyes of these critics, would not of itself entirely remove the differences of remuneration, unless it was accompanied by adequate public subvention of family needs.

The question of direct State assistance to wage earners with dependants has come into prominence during the past few years. In some countries the motive has been primarily militarist : people are to be induced to rear larger families mainly in order to provide an adequate potential army against the contingency of war. In other countries, the object has been more humane, it being recognised that the present wages system makes inadequate provision for a large proportion of the population, and that there is a social obligation for the maintenance of dependants, if the wage earner is in receipt

State  
Subvention  
to Families.

\* *War Cabinet Report*, pp. 294-5.

of insufficient income. Many urge, also, that women who go out to work in order to provide for their children should receive sufficient help from the State to make it unnecessary for them to be wage earners at all. Thus there are two proposals, (a) the endowment of motherhood, and (b) pensions for mothers.

National endowment of motherhood is advocated as a way out of the difficulty noted in the previous pages. Different workers have different family needs. Yet to differentiate wages on this basis (assuming for the moment that such a scheme were possible) would tend to encourage the employment of those with relatively few dependants in preference to workers whose needs were greater.

Family endowment, it is claimed, would not only prevent this insidious competition between those with few and those with many dependants, but it would improve the position and remuneration of women in industry, for the excuse that their needs are less and therefore their wages should be lower, would lose much of its weight.

The Family Endowment Committee, for example, propose that the State should make grants to mothers of families similar to the separation allowances during the war. The sums proposed are 12s. 6d. a week for the mother, 5s. for the first child, and 3s. 6d. for each other child. It is estimated that the annual cost would be £144 millions if endowment ceased at the age of five, £240 millions if it were extended to the age of fifteen. A scheme on these lines is supported by other women's associations.

Many labour organisations, however, while sympathising with the principle, doubt the practicability of family endowment in the present system, and urge that main efforts should be directed to raising men's wages sufficiently to maintain a family without necessitating the wife going out to work or engaging in home employment. A criticism from

another standpoint is that indiscriminate endowment would unduly stimulate the growth of population, for the check imposed by the desire to maintain the customary standard of life would be weakened, if not altogether removed. This difficulty cannot be ignored; yet it is doubtful whether the danger is not exaggerated, for it is common experience that an increase in material well-being does not necessarily bring about a greater population. The largest families are not reared by parents who are affluent; nor are small families an index of small incomes.

The War Cabinet Committee did not support the proposal for the endowment of motherhood, but definitely recommended the granting of pensions "to widows and to deserted wives with children, and to the wives with children of men physically or mentally disabled."\* Pensions for widowed mothers are more widely favoured than endowment of motherhood, and are now provided in this country on a contributory basis.† Such pensions should not only benefit the widow and her children, but in so far as they reduce the supply of female labour they should help to raise the wages of other women workers. But whether the assistance takes the form of motherhood endowment or of widows' pensions, the amount ought to be sufficient to make it unnecessary for the mother to undertake paid employment. Some would propose that a definite condition of this assistance should be the entire withdrawal from the labour market.

Foreign experience in these matters is very instructive. In France, for example, a large number of private firms have formed associations for the purpose of granting family allowances. Each firm pays a specified sum into a common pool, the share being determined by the size of the firm. An attempt to make these provisions compul-

\* *War Cabinet Report*, p. 179.

\* See below, pp. 343-5.

sory by law was defeated mainly because the employers preferred to conduct the schemes on a voluntary basis. Many of the French workers are not enamoured of this form of family allowance, for they fear, with a certain justification if past experience is any guide, a corresponding reduction in the basic rate of wages.\*

Pensions for mothers have been adopted in several countries, notably New Zealand, South Africa, the majority of the Provinces of Canada and the States of Australia, Denmark, and over forty of the States of America. The recent concessions in this country have been long overdue.

Though an ever increasing proportion of the country's products are turned out in the factory, the amount produced in the homes is still considerable. In 1914 there were over 1½ million home workers, most of whom were women. The problem of the home worker does not arouse the same interest as that of the factory worker, partly because of the disparity in numbers, partly because there is practically no organisation and no means of common expression. Trade unionism is facilitated and stimulated when many workers are collected under one roof; statement of discontent and movements to improve their lot are easier when the workers are already concentrated. But the position of the home worker is little different from what it was a century ago. Though sweating is not yet altogether eliminated from the factory and the workshop, conditions there are rosy compared with those prevailing among many of the outworkers.

The supply of home workers has certain peculiarities which help to depress their conditions and remuneration. The work done in the homes is not necessarily unskilled or semi-skilled. Some home work in the tailoring trade is

\* Trades Union Congress and the Labour Party, *Motherhood and Child Endowment*.

distinctly skilled in character, but there are so many women who possess the necessary ability that the pay tends to be very low. Frequently the married outworkers have acquired the necessary skill in the factories before they married. Any tendency for the skilled work to be better rewarded than the average is thus offset by ample supplies of the requisite labour.

Housewives find home work attractive in that little regularity is required. They are prevented by domestic duties from undertaking factory work with its regular hours, but welcome the opportunity of earning a little during odd hours, which in the aggregate may be nearly, if not quite, as numerous as those worked in a factory. Since the time spent on outwork is irregular, and not subject to supervision, the manner of payment is necessary by piece. Where the outworker is not fully dependent on her own earnings, the rate of payment is liable to be under-cut. All these factors contribute to make the supply of home workers plentiful and cheap.

While the wages of men are kept low, there will always be the temptation, and sometimes the dire necessity, for women to undertake work in their own homes. Inquiry into their conditions and remuneration shows that under-paid home work among women is very common in districts where the low wages of the male earners make it almost imperative for the wife to earn something in addition ; on the other hand, where the husband's wages are fairly high, women will not undertake home work unless it is relatively well paid.\* Thus there is a closer relation between men's wages and the payment for women's home work than is evident on casual inquiry.

The nature of the demand for home workers also calls for special consideration. Many of the products that

\* Vessellitsky, *The Home Worker*, p. 4.

can be turned out by hand in the homes are capable of being produced by machinery in the factory. Competition with the machine thus reduces the wages of the home worker. Factory work is better organised, and the productivity of the inworker is naturally greater than that of the outworker. If the rates of payment were the same, the employer would prefer to rely entirely on factory work. The home worker has to accept lower wages if she is to secure work at all.

Home work is more common in those industries in which there is a seasonal demand. A manufacturer is loth to construct a large factory which will not run to full capacity for more than a few months a year. He prefers in these circumstances to have a relatively small factory, just sufficient for the average or even less than the average demand, and to depend largely on home workers during the busy season. He thus economises in standing charges during the slack months, and gets his extra labour very cheaply during the busy months.

Competition from the machine and the inworker has already been mentioned. There is another form of competition which helps to depress rates of pay in certain classes of work, namely, competition from the consumer. In the blouse trade, for example, the ability of many of the customers to make up the articles compels the manufacturer to cut down his price or find his sales reduced. A customer who prefers to make a blouse or similar article rather than pay a certain price does not as a rule reckon up the labour cost to herself with the precision that would be necessary if the labour were directly paid for. The outworker and the factory worker have to compete therefore with the customer, who may be unable to pay a proper price for the article because she herself is in receipt of insufficient income.

So far the Trade Boards, with certain exceptions, have made inadequate provision for the home worker. The difficulties are rendered more intense by the ignorance of many outworkers of the true value of their services, and, where this is known and specified rates are laid down, by their willingness to accept less than the scheduled rate for fear of not being employed at all. The position needs urgent remedy, not only in the interests of the outworkers themselves, but for the sake of those factory workers who find too frequently that their wages are depressed by the competition of the home workers. Thus the outworker is sweated because of the inworker's higher efficiency, the inworker is in danger of being sweated because of the outworker's lower demands.\*

\* See *Report of Committee on Home Work*, 1907.

## CHAPTER VII.

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### THE TRADE UNION MOVEMENT.

Various aspects of trade unionism are discussed in different parts of this book, and the following pages attempt to indicate only the salient features of the movement\* In order to comprehend the functions and methods of the trade union and the place it occupies in the labour movement, it is necessary to have some knowledge of its development, for in no other branch of Social Economics is a historical survey more indispensable to a proper understanding of the subject.

**Early Growth  
of Trade  
Unions.**

Trade unionism of a kind may be traced back long before the Industrial Revolution. Though the modern union has no direct link with the early guilds, it bears a certain resemblance to the journeymen's fraternities which were an offshoot of the guilds. But it was not until the industrial changes of the eighteenth century that the need for workmen's combination became pronounced and

\* Space does not permit of more than a short sketch of the trade union movement. The most comprehensive statement of its origin and development is contained in S. & B. Webb's, *History of Trade Unionism* (1920 Edition). The same authors' *Industrial Democracy* (1920) is an admirable inquiry into the principles and methods of trade unionism. G. D. H. Cole's *Organised Labour* (1924) gives an up-to-date account and a useful analysis of the movement.

that any large organisation was possible. The Industrial Revolution substituted the machine tender for the skilled craftsman, and with the competition of the machine on the one hand and the unskilled and semi-skilled worker on the other the average wage fell very low. Working conditions degenerated to a state rarely found in the earlier domestic system of production. The fact, however, that the workers were now collected in large numbers in the towns and factories made expression of discontent and schemes for reform more possible than when the workers were scattered over the country and working in their own homes. "Correspondence societies" and other forms of workers' combination sprang up in most industrial districts, and began to press for better treatment by the new capitalist employers.

Parliament at the time was hostile to these unions, and several Acts were passed making combination illegal in particular trades. This legislation was followed by the general Combination Acts of 1799-1800, which forbade the establishment of unions in any trade. Workers who joined the unions were to be severely punished. Technically, combination of employers against the workers was also forbidden, but very little action was taken to enforce this prohibition, whereas the penalties against the workmen were rigidly enforced. Several trade unions, despite the illegality, helped to conduct the agitation for the repeal of the repressive legislation. These endeavours, together with political strategy, secured the repeal of the Combination Acts in 1824-25. Theoretically the unions were permitted, but they were still liable to prosecution for conspiracy in the event of strike action. The number of unions and members quickly increased, and the early 'thirties witnessed experiments in trades unionism, which differed from ordinary trade unionism in that attempts were made

to bring the workers in all industries into a single national organisation, instead of combining them in separate unions for particular crafts or industries.

The Grand National Consolidated Trades Union, formed in 1834 under the influence of Robert Owen and his followers, comprised nearly a million workers of both sexes in most of the trades of the country. It was expected that "direct" strike action would bring about the desired changes in society. The union came to naught, however, and the workers concentrated their attention on Chartism, which was political rather than industrial in character. The Reform Act of 1832 had enfranchised the middle classes but not the mass of wage-earners, and the latter saw in the "Six Points" of the Workers' Charter (vote by ballot, payment of members, etc.) an opportunity for expressing their grievances and demanding redress. The Chartist movement failed to secure any immediate and tangible benefit, and the workers, disheartened for the time with revolutionary policy on the one hand and political action on the other, turned their activities to less ambitious and more cautious and opportunist methods.

The "slow but sure" policy, which was predominant for the next twenty years, found its first expression in the Amalgamated Society of Engineers which was established in 1850. This union was on a national basis; it established a thorough apprenticeship scheme, and laid stress on the friendly benefit side of trade union function. Only skilled engineers could join this union, owing to the policy of the leaders and to the high contributions that had to be paid. The A.S.E. provided the "new model" for subsequent unions, notably the Amalgamated Society of Carpenters. Caution was the watchword of the leaders, many of whom had suffered in the revolutionary period of the "hungry 'forties," and who

**The Period of Consolidation.**

preferred to build up the new organisations on firmer grounds. Elaborate machinery for conciliation and arbitration was set up in many industries, and only in extreme instances was there resort to strike action. Apart from the leader's distrust in militant methods, a partial reason for the comparative unimportance of strikes during this period was the vague idea prevalent at the time, and one which was encouraged by the orthodox economists, that an increase in the wages of one class of labour would most probably be at the expense of another class. The theory of a "wages fund" (the fallacy of which was examined in Chapter III.) was employed as an argument against trade unionism even by some of the professed friends of labour, and it is not surprising that some trade unionists themselves were imbued with the idea.

All this conspired to make the new trade unions distinctly conservative in policy and methods. The leaders were, on the whole, content to leave the control of industry in the hands of the capitalist, and concentrated most of their energy on less vital matters, such as the provision of friendly benefits and the accumulation of large reserve funds. Certain critics at the present time are prone to condemn the trade unionist policy of the third quarter of the nineteenth century, but there is no doubt that it secured the foundation and structure of the movement, without which later developments would have been impossible.

About this time permanent Trades Councils came into existence. The national unions usually had officials in different areas, and it was only natural that the local leaders of the several unions should meet together to discuss labour questions affecting their district. Trades Councils developed from meetings such as these and also from local strike committees. The Trades Council performs a useful service in co-ordinating local activities, and in fostering

unity among local trade union interests, and deserves a greater measure of recognition, encouragement and material support from the unions that it at present receives. The Trades Union Congress, which was established in 1868, provided a similar central body for the unions as a whole, and came to play a large part in formulating general policy. It has no executive powers, but the annual meetings serve to impress on the several unions the need for common action, and also to focus attention on important issues that might possibly be overlooked by individual unions.

The struggle for fuller legal recognition came to a head in this period. The end of the 'sixties saw trade unionism threatened from more than one direction. Employers were combining in systematic attempts to break the trade unions, their method being to declare a general lock-out of all the men in a particular industry, even though the original dispute was between an individual firm and its employees. Secondly, there had been a certain amount of sabotage in Sheffield and a few other places, and this was taken as a pretext to attack trade unions in general. Thirdly, a legal decision in 1867 (*Hornby v. Close*) declared trade union property to be outside the protection provided by criminal law.

A Royal Commission was appointed to investigate the situation, and the Trade Union Act of 1871 was the outcome. Unions were given legal security for their funds, but were left free to conduct their ordinary friendly-benefit functions without interference. At the same time, however, the Criminal Law Amendment Act was passed which re-affirmed judicial decisions on the subject of conspiracy and picketing, and made the legality of a peaceful strike very doubtful. The resulting agitation succeeded in 1875 in getting this Act repealed; peaceful picketing was declared legal and it was further laid down that an agreement by

two or more persons to commit an act in connection with a trade union dispute should not be indictable as a conspiracy if the act were legally permissible for one person alone. The passing of the main Act of 1871 was followed by a great expansion of trade unionism, but the industrial depression beginning in 1874 brought about a number of unsuccessful strikes and the disappearance of scores of the smaller unions. The leaders were still satisfied with pursuing their policy of caution, tacitly accepting the capitalist structure of society.

The rise of a new generation of trade unionists brought a reaction against the conservatism of the older leaders. The spread of socialist doctrine about this period helped to widen the divergence on policy inside the unions. On the question of wages, for example, whereas the older section adhered to the individualist principle that wages should follow prices, the advanced unionists were agitating for State action and the fixing of a minimum wage. The demarcation disputes between unions concerned with allied occupations did not make for harmony within the movement. Trade union policy now became more aggressive and comprehensive. The "New Unionism," which developed about the time of the great dock strike of 1889, challenged the practice of excluding the unskilled and ill-paid workers from the movement; it aimed at the organisation of women wage-earners; it put the "friendly" activities into a subordinate position, and reduced the contributions to fit the poorer workers' pockets. Trade unionism was frankly regarded as a militant class movement, whose object was the overthrow of the capitalist system. Socialist influence was evidenced by the increasing number of strikes for better wages and working conditions, and by the resolutions of

**The "New  
Unionism":  
Growth of  
Political  
Action.**

the Trades Union Congress in favour of an eight hour day, land nationalisation and similar objects. "Union by industry" as opposed to "union by craft" was growing in popularity, and the end of the century saw a good deal of federation and amalgamation.

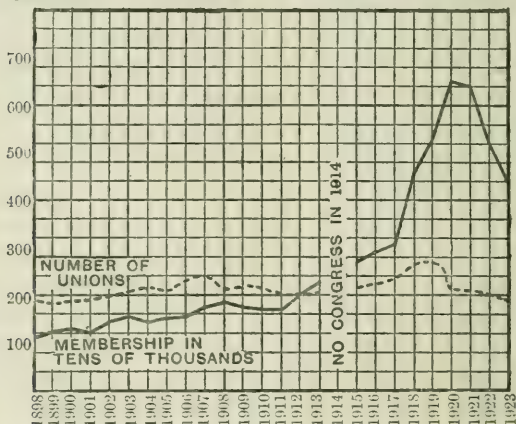
The new militant spirit showed itself in the extensive strikes in the years preceding the war. The intellectuals of the movement regarded the union not merely as a force concerned with increasing wages and reducing hours, but as an agency for taking over and conducting industry on the supersession of the capitalist system. Syndicalism and Guild Socialism, on which a word will be said later, attracted many adherents in the trade union ranks. The war only suspended these militant activities, and after the armistice the agitations broke out anew. For a time much was heard of "direct action," but the industrial depression put the unions on the defensive. The membership had more than doubled during the war, the number affiliated to the Trades Union Congress alone having increased from  $2\frac{1}{4}$  millions in 1913 to  $6\frac{1}{2}$  millions in 1920. The membership fell, however, in the next three years to  $4\frac{1}{2}$  millions. Both the rise and the fall in membership were the result of exceptional circumstances, but the unions gained on balance.

Meantime the political function of the trade union movement was rapidly developing. During the nineteenth century, the trade unions, so far as they intervened in political matters, were content with supporting one or other of the older political parties.\* A few "Lib.-Lab." members represented Labour interests more or less directly in the 'eighties, but it was not until 1892 that the first really

\* This still holds true of the American trade unions, which have not so far formed a specific party to represent the interest of Labour.

independent Labour Member was elected. Seven years later, the Trades Union Congress supported the formation of a Labour Representation Committee, which was brought into existence in 1900. Two of this Committee were elected in the General Election of that year, and in 1906

**TRADE UNIONISM FROM 1898 TO 1923.**  
(Organisations affiliated to the Trades Union Congress).\*



Labour representation increased to 29. The influence of Labour pressure was reflected in the Trade Disputes Act of 1906, which secured for trade unions immunity from actions in respect of peaceful acts arising out of trade disputes. The Labour Representation Committee became the official Labour Party in 1906, and since then the

\* It should be noted that only four-fifths of the trade unionists are covered by the Trades Union Congress returns. The total membership is, therefore, about a quarter more than indicated in this graph. It may also be pointed out that nine-tenths of the trade unionists given in the official returns are enrolled in less than one-sixteenth of the number of trade unions—due to the remarkable concentration in the larger unions.

growth of political power exercised by the trade union movement has been very rapid, culminating in the first Labour Government, 1924, in which the trade union element was very prominent.

This brief and incomplete survey has been intended only to show the principal stages in the rise of trade unionism in order to facilitate a fuller analysis of the nature and functions of the movement. Barely over a century ago the trade union was an illegal organisation ; the repeal in 1824-5 of the repressive legislation was followed by a few years of revolutionary methods which brought little direct benefit to the workers of the time. During the next phase the trade unionists were concerned primarily with consolidating their position and securing full legal recognition. In the "New Unionism" that followed, the ranks were opened to the unskilled and to women, and with the growing influence of Socialism the character and methods of trade unionism became more assertive. The union passed from the defensive to the aggressive, and new views arose regarding its function in the control of industry. With the rise of the Labour Party, the political method took its place alongside the "industrial" method. Though a section of the Labour movement still favours "direct" rather than "constitutional" action, the majority prefer to employ both methods as the complement of each other. The decline in trade unionism after the war is being followed by a gradual but certain recovery. With the revival fresh problems in addition to the old will have to be faced.

All unions are not identical in their nature, constitution, functions or methods. They are all alike, however, in that every trade union, to quote **Nature of Trade Unionism.** Mr. and Mrs. Webb, is "a continuous association of wage-earners for the purpose of maintaining or improving the conditions of their working lives."

“Wage-earners” must of course be interpreted broadly so as to include professional and salaried workers. The definition emphasises the continuity of the organisation and the purpose to which it is directed. There are many associations of workers (*e.g.* friendly societies) which cannot be classed among trade unions since the object is not specifically concerned with the amelioration of working conditions. Similarly, a combination formed for conducting a strike and then dissolved on the termination of the dispute does not come within the category of trade unions for the element of continuity is lacking.

An important difference between the organisation of labour of the eighteenth century and that of to-day lies in the spasmodic nature of early combinations, which would be called into existence only when a dispute arose and allowed to disappear when industrial peace was secured. Continuity is fundamental to the success of modern trade unionism. A union is often instrumental, without resorting to drastic means, in securing concessions for its members, or in preventing employers from taking undue advantage of fortuitous conditions. Though trade unions are responsible for many disputes, they prevent many from arising; the fact that they are in permanent existence and are always ready to take action on behalf of their members serves as a brake on any unfair demands from the employers’ side.

It is impossible to give a hard and fast classification of the types of trade union structure, for practically every union has its own special problems to which the organisation and constitution have usually been adapted. Allowing, however, for the arrangements peculiar to the different unions, one may note four more or less distinct forms of structure, (a) union by craft, (b) union by industry, (c) union according to the

**Trade Union  
Structure.**

material used and (d) union of general labour. Of these types the first two are the most important.

Craft unions were the first form of labour combination, being built up on a vocational basis, primarily, but not necessarily, for skilled workers. Employees engaged on a particular task or using a particular set of tools established unions, very often irrespective of the industry wherein they were engaged. Pattern-makers or clerks, for example, may be found in shipbuilding, railway works, general engineering, constructional works, etc., and their unions cut "horizontally," as it were, across the whole of industry.

Unions by industry,\* on the other hand, would include every class of labour, skilled and unskilled, clerical and manual, engaged in the production of an important commodity or service. In contrast to the unions by craft, the unions by industry are "vertical" in structure. Whereas the craft organisation would have the managers, the clerks and the different classes of artisans in the production of (say) clothing in separate unions according to the specialised occupation, the other plan would bring them all into a single union for the whole of the clothing industry.

Unions based on the material employed bear a certain resemblance to the unions by craft. The Amalgamated Society of Woodworkers, for instance, combines cabinet makers, carpenters, machinists, etc., and cuts across several industries. This form of organisation meets with as much disapproval from the advocates of union by industry as does the union by craft, and for practical purposes it is

\* Strictly speaking, union by industry should be distinguished from industrial unionism, which aims at a single organisation of workers in all trades and is more revolutionary in character. (Cf. trades unionism, *supra*, p. 150).

not necessary to deal with "material" trade unionism separately.\*

Unions of general labour combine the semi-skilled and unskilled workers of many different industries, and also provide an organisation for workers of all degrees of skill in the small trades not covered by separate unions. The membership of these unions, which in 1924 was about 650,000, is naturally of a very mixed character, but, in the absence of particular associations for the several kinds of labour, a general union is better than none at all. It is to be expected that, as new unions are formed in the trades not at present separately organised, the general unions will lose a corresponding proportion of their members. On the other hand, certain supporters who are imbued with the "Big Union" idea anticipate that the general unions will increase their membership at the expense of the other unions. While in principle it may be preferable to have a single body representative of all the workers, instead of a large number of separate unions, it is doubtful whether the general labour unions, consisting for the most part of semi-skilled and unskilled workers, would provide the proper organisation.

Union by Craft or Union by Industry?	Controversy ranges most between the claims of union by craft and union by industry. The craft unionist maintains that his form of organisation is more natural than one which attempts to combine all classes of workers of widely different nature and outlook. The bond of mutual interest is stronger when the members are engaged on similar work than when they perform
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\* The German Union of Metal Workers—the largest union in Germany—is of this character, but, as it organises the unskilled as well as the skilled, it has a greater resemblance to a union by industry. See Cole, *Organised Labour*, p. 29.

various tasks which, though they may be comprised with a single industry, differ widely in character. The craft unionist contends that his association is firmer and more uniform, and that the members can derive greater advantage than they would by joining the larger but heterogeneous union. He fears that if all the workers in an industry joined a comprehensive union, the more skilled workers would be overwhelmed in voting power by the less skilled workers, and that questions primarily affecting one special class of the members might receive inadequate attention. This affords one reason why the Associated Society of Locomotive Engineers and the Railway Clerk's Association have so far refused to join the National Union of Railwaymen.

There is, further, the financial difficulty. Craft unions have, on the average, higher contributions and better benefits than those unions which cater for all classes of workers. A craft unionist who has been paying contributions for many years and is nearly qualified for superannuation benefit is naturally opposed to the merging of his union with the larger body, if the pooling of the funds and the re-arrangement of the scheme of benefits work out to his detriment.

The advocate of union by industry, while not disputing these difficulties, claims that they are not insuperable. The financial question is merely one for mutual arrangement and adjustment, and has been satisfactorily overcome in many instances. The fear that the interests of a section of the workers would be overshadowed by those of the majority is said to be exaggerated, if it is not actually selfish. But in any case, it is claimed, the advantages to all classes resulting from common action would more than compensate for any slight loss in particular directions. The more craft unions there are within an industry the more

frequent are demarcation disputes, and, in view of inevitable overlapping, the more uneconomical is the administration as a whole. The economies of large-scale organisation are just as manifest in labour as in capitalist combination. Employers' federations tend to be on an "industrial" and national basis, and the workers find it to their advantage to have an equally broad basis for collective bargaining. Also, in the event of the negotiating machinery breaking down, a strike on the part of a craft union would not, unless it comprised important "key" men, be so effective as a rule as if it were conducted by a union of all the workers in the industry.

Union by industry is favoured by the Guild Socialist who regards the trade union as the basis of future industrial organisation. While the workers remain organised on craft lines, they are not being prepared for the ultimate taking-over of industry; a necessary preliminary, it is maintained, is the organisation of the workers on industrial lines. The Guild Socialist differs from the State Socialist in that he desires to vest a large measure of control in the workers of the several industrial groups; for example, the mining industry should be controlled by those working in the mines and at the mine-head (including of course the managers and salaried staff), the railways should be run by the railway workers, and so on. The Guild Socialist differs from the Syndicalist in that he recognises certain rights of the State in industry. While fearing that State Socialism would degenerate into "State Capitalism," he realises that some public control is essential if the community is not to be dominated by the more powerful unions. There are many Socialists, however, who refuse to accept the "unitary sovereignty" in trade unionism advocated by the Guild Socialist. The possibility of reducing the movement to such a simple and uniform basis is also disputed; society

is regarded as too complex, industries and vocations too interlaced, to permit of this type of industrial government.\*

The ardent advocates of union by industry are prone to give too little credit to the useful functions performed by the craft unions. While different bodies of men are engaged in specialised vocations, some degree of "craft" organisation is inevitable. It would be undesirable to suppress, or attempt to suppress, this useful form of association. On the other hand, the emphasis on the value of the craft union should not hinder the proper development of the union by industry. It should not be impossible to devise some trade union structure which covers the whole of an industry, yet concedes an appreciable though necessarily limited measure of autonomy to the craft organisations among its members. The wider adoption of what is termed the "double card" method would probably help in this direction. Members may have to work in industries or services not directly covered by their own union, and events may arise to compel action by the workers in such employment. The "double card" arrangement would facilitate the transfer of workers from union to union, and make for greater unity in the movement as a whole. The Miners' Federation and the Amalgamated Engineering Union came to an agreement of this character in 1921.

Where the pride of the smaller unions and their unwillingness to sink their identity in the more comprehensive organisation stand as a barrier to complete amalgamation, the unions are forming federations which, in some cases, are almost as effective as complete amalgamation. Five federations cover the bulk of trade unionists

**Federation  
and  
Amalga-  
mation.**

\* Cf. criticism of insurance by industry, *infra.*, pp. 325-334.

at the present time,\* but as the federations in all number about ninety, and as duplication results from unions being affiliated to more than one federation, there is still plenty of opportunity for improvement in structure.

Some federations, such as the Miners' Federation, are so closely woven that they are virtually amalgamations. They consist of district unions, but all the members throughout the country are engaged in practically the same kind of work. Consequently there is no overlapping. Another class of federation, such as that of the Building Trades Operatives, comprises a group of national unions covering different types of occupations. There is an attempt in this case to combine the several craft unions into an organisation resembling a union by industry. Here again there need be little or no overlapping. A third form of federation is exemplified by the Engineering and Shipbuilding Trades Federation which combines a number of unions, the activities of which may overlap to such an extent that some of the constituent unions actually compete with one another to secure members. The "poaching" that often results engenders bitter feeling, and points to a defect in the organisation that makes it possible.

Of the three forms of federation, the first would seem to be the most effective, as it is composed of a uniform type of workers who, since they are organised on a local basis, do not present any demarcation or overlapping disputes. The second form is not quite so strong, for a national craft union belonging to the federation may not be willing to fall in with the policy of the other unions. The third type, though it is certainly better than no federation

\* Viz., The National Federation of General Workers, the Building Trades Federation, the Shipbuilding and Engineering Trades Federation, the Transport Workers' Federation and the Miners' Federation.

at all, is weaker than either of the others owing to the lack of uniformity and the duplication of functions.\*

Amalgamation too is steadily proceeding. While the number of trade unionists has increased, the number of unions—despite the creation of new organisations—has remained fairly constant.† The Amalgamated Society of Engineers, as shown above, provided a “new model” for the craft unions during the third quarter of the nineteenth century. In a similar manner the National Union of Railwaymen, formed in 1913 from three separate unions, supplied a “new model” for subsequent unions on industrial lines. Legal difficulties in the way of amalgamation were experienced until 1917; *e.g.* a majority of two-thirds of the whole membership of each of the unions concerned was necessary before an amalgamation could take place. The position was somewhat improved by the Act of 1917 which stipulated that at least 50 per cent. of the members should vote, and that at least 60 per cent. of those voting should be in favour of the amalgamation.

\* The General Federation of Trade Unions, is of a different character from the ordinary federation. It was formed in 1899, and serves as a mutual insurance society. Unions that wish may contribute a yearly sum per member to the General Federation as a premium against loss in the event of strikes or lock-outs. The membership has been as high as a million and a quarter, and as late as 1922 about 120 unions were affiliated to it; but the Federation has declined in importance in recent years owing to the overstepping of its proper functions and to its unwarranted claims to represent the views of the labour movement.

† See above, p. 156 for graph showing total membership and number of unions for the last twenty-five years.

‡ In the case of small societies the obstacle was often overcome by the larger union going into dissolution, the members then being accepted by the larger union on pre-arranged conditions. But there is a certain risk of loss of membership, and the practice did not appeal to the more important unions, especially where a large society was unwilling to merge itself in another union.

Trade union leaders are urging that the law should be further amended so as to allow amalgamation to take place following a simple majority on both sides.

Another difficulty in the way of amalgamation, viz., that of funds and benefits, has been touched upon previously. It should not be beyond the capacity of the trade union organisers to solve a problem which is largely a matter of simple adjustment and book-keeping. A further obstacle, the unwillingness of one general or district secretary to become subordinate to an official in another union, is often a stumbling block, but here again the difficulty ought not to be insurmountable. Personal jealousies should not be permitted to hinder the normal coalition of forces that sooner or later must come about. The last half-century has witnessed a marked concentration of energies in all branches of industry, and trade unionism, in order to cope successfully with the growth of capitalist combination (as well as employers' federations), is being driven to organise on similar lines. Equal bargaining power with the employers is found impossible so long as the workers are split up into sectional groups.\*

The unification of the trade unions is also being attempted from other directions. The Trades Union Congress, notwithstanding its limited powers and the fact that it meets but yearly, provides a means of expressing the views of nearly the whole movement. The Parliamentary Committee of the Trades Union Congress, designed to keep an eye on all legislation affecting the worker, was an endeavour to link up the industrial and political movements. With the growth of the Labour Party this Committee lost part of its function. In 1920 the Trades Union

The  
General  
Council.

\* For fuller account of federation and amalgamation at the present time, see Cole, *Organised Labour*, 1924, pp. 35-38 and 77-87.

Congress set up a General Council which was to meet at least monthly and deal with matters that called for consideration by the central trade union body. The General Council superseded the old Parliamentary Committee and, having wider powers, would seem to have greater promise as a co-ordinating authority. The following table shows the constitution of the General Council.

## CONSTITUTION OF THE TRADE UNION GENERAL COUNCIL, 1923.

	Affiliated Membership.	Representatives on General Council.
1. Mining and Quarrying ..	785	3
2. Railways .. .. .	447	3
3. Transport (other than Railways) .. .. .	407	2
4. Shipbuilding .. .. .	143	1
5. Engineering, Founding and Vehicle Building ..	449	3
6. Iron and Steel and minor Metal Trades .. .. .	158	2
7. Building, Woodworking and Furnishing .. ..	382	2
8. Printing and Paper ..	160	1
9. Cotton .. .. .	242	2
10. Textiles (other than cot- ton) .. .. .	160	1
11. Clothing .. .. .	98	1
12. Leather and Boot and Shoe .. .. .	87	1
13. Glass, Pottery, Chemicals, Food, Drink, Tobacco, Brushmaking, and Dis- tribution .. .. .	192	1
14. Agriculture .. .. .	30	1
15. Public Employees ..	170	1
16. Non-Manual Workers ..	68	1
17. General Workers ..	391	4
18. Women Workers ..	(included in above)	2
	4,369	32

A distinct step forward in the unification of the movement was taken at the Trades Union Congress in September, 1924. The recommendation was carried by the large majority of 14 to 1 that the General Council be permitted to exercise a directing influence on the conduct of trade disputes. Unions are expected to give full information of all questions in dispute to the Council, which, if thought desirable, will disseminate the knowledge to all the unions in the industry concerned. Should the ordinary negotiating machinery appear to be breaking down, the Council may intervene with a view to a settlement and advise the unions involved as to the proper course to pursue. Unions disregarding the advice and help of the Council will be reported to the Congress. If the unions follow the advice of the Council, but a strike or lock-out ensues, the Council will marshal such forces in support of the workers concerned as the circumstances dictate. Thus a powerful co-ordinating authority is established, which may lead to an effective General Staff for the labour movement that has for so long been advocated.

It is too early to judge the work of the Trades Union General Council. Its most ardent supporters do not expect it to bring complete harmony into the movement, but, given adequate powers, it should contribute something towards the completion of this herculean task. So long as the Council consists of representatives who put the interests of the individual unions before those of the movement as a whole, the desired unity will not be achieved. The scheme outlined above does not encroach upon the autonomy of the separate organisations, and it remains to be seen whether the stronger unions, even if powerful enough to act alone, will accept the judgment and direction of the General Council.

The functions of different trade unions vary to a large extent with the nature of the industry and of the workers. Apart from the minor services rendered by certain trade unions

**Functions of Trade Unions.** (a) **Insurance.** (*e.g.* information as to vacancies, free legal assistance in regard to workmen's compensation, etc.), the principal functions are of three kinds, (a) mutual insurance, (b) collective bargaining and (c) political action.

The majority of unions provide a system of insurance benefits to their members, but the amounts differ according to the contributions that the trade unionists can afford, or are called upon, to pay. The benefits are mainly of three kinds, (i) friendly and provident benefits, *e.g.* on the occasion of sickness or death, (ii) unemployment benefits, and (iii) dispute benefits which help to maintain the worker during a strike or lock-out. In certain unions full voting rights are contingent upon contribution towards the friendly benefits. The function of providing friendly benefits has provoked much criticism during the last few decades. The contention has been put forward that a union which holds large funds for "friendly purposes" is apt to lose its vigour as a fighting body, and that such benefits should be relegated entirely to the friendly societies, or better, to the national scheme of social insurance which is gradually being extended.\* The trade union, however, has become an important agent of the State in administering the insurance schemes, and the abolition of this function in the near future is very doubtful. The provision of friendly benefits has in the past induced many workers to join and remain in the union who otherwise would have taken less interest

\* See Ch. XIII.

in the movement. Even now, the unions would stand to lose a not inconsiderable proportion of their members if this service were terminated. All things considered it is desirable that friendly benefits should for the present be retained, but on a voluntary basis; that a clear-cut distinction be drawn between friendly benefits on the one hand and unemployment and dispute benefits on the other; and that a member should have full voting powers in the conduct of the union even though he does not contribute to the friendly benefit funds.

The provision of dispute benefits is more essential to the real work of trade unionism. The maintenance and improvement of the wage-earner's working conditions depend on his ability to overcome the natural disadvantages in his dealings with the employer. As was shown in Chapter III., the negotiating strengths of the individual worker and his master respectively are very unequal. In order to secure equal bargaining power, the workers must not only combine, but should have adequate reserves to maintain them in the event of a strike. Many unions, especially those of the poorly-paid workers, have little to do with friendly benefits, reserving their finances for the more important object of maintenance during disputes.

The function of collective bargaining is more important than that of mutual insurance. For a long time the employers did not admit the right of the workers to bargain through the union's representatives, and "recognition" strikes were common. A few of the employers still insist on dealing with their workers individually, but most have come to prefer to negotiate through the unions. There have occasionally been regrettable breaches of faith on both sides, yet the agreements have been, in the aggregate, more effective and lasting than arrangements between employers and

(b) **Collective  
Bargaining.**

workers separately. While the unions admittedly aim at the maximum possible share for the workers, the employers are free, once an agreement has been reached, to extend their operations and undertake new business with a greater assurance of stability than would be possible if individual bargaining were still the rule.

A common criticism is that the trade union unfairly interferes with the liberty of the individual, a view which was particularly prevalent during the nineteenth century. It is true of course that the union does exercise a restraint over its members which some find irksome. But any organisation which represents a large body of people must occasionally arouse resentment among a few. Before any important change in policy can be effected, a substantial majority of the members must, as a rule, give their support to the proposal. Trade unions not infrequently safeguard the public against the action of extremists who, in the absence of restraint by the more moderate members, would cause serious disturbance to the community.

Some critics take the part of the non-unionists, who, they say, are coerced and threatened by the trade unionists. It is illegal, however, for the unions to adopt other than peaceful methods, and instances of intimidation and violence are very rare. The fact that the number of non-unionists is rapidly dwindling is evidence, not of compulsion, but of the recognition by the non-unionists themselves that their interests are best served by joining the union. Collective bargaining by the organisation, and the general application of the resulting agreements, are as much to the benefit of the non-unionists as to that of the members.

It may be argued that trade unionism instead of restricting free competition really assists it. Perfect competition does not imply, as some advocates of individual bargaining

still contend, that the employer and the worker should be left free to make the best bargain for themselves. The "best bargain" would inevitably be in the favour of the employer. Real competition should rest on a basis of equal opportunity and of equal freedom from hindrances. The individual worker is handicapped from the start in negotiating with his employer, and all that the union does is to restore him to the plane of free bargaining. It does not put him at an advantage over the employer; it merely gives him the bargaining power of which the employer in the past has had an undue share. This view of free competition is more reasonable and humane than that taken by the legislators in 1799, when they forbade trade unionism mainly on the ground that it restricted the liberty of the individual.

Other critics lay stress on the interference with the activities of the general public. A strike of railway workers, for example, brings serious disturbance to trade and inconvenience to travellers. The trade unionists, however, are not blind to the loss and hardship caused by strikes; their own suffering during the time is usually greater than that caused to other people. The strike is only regarded as a weapon to be used in extremity. The "right to strike" is jealously guarded by trade unionists, not because they are enamoured of industrial disputes, but because they realise the power given them by the threat of a strike.

The success of a union is not measured by the number of strikes it conducts. The cotton textile unions are among the most efficient in the country, yet they have led but a comparatively small number of strikes. Collective bargaining has been developed in Lancashire to a high degree; able and trained representatives of both parties meet on equal terms and, in the majority of cases, peacefully come to an arrangement that affects all the workers in the

particular section of the trade. The unions which are more frequently involved in strikes are not necessarily any more successful in improving the workers' lot than those whose methods are less precipitate.

The method adopted by the trade unionists depends largely on the attitude of the employers. Bargaining machinery must necessarily be built up on both sides, and there is little hope of permanent industrial peace in an industry where the employers refuse to take their place on the conciliation board.

Though the political function developed fairly late in the history of trade unionism, it has assumed during the last twenty-five years a prominent place among union activities. Use had been made, however, of the method of legal enactment, as distinct from direct participation in politics, from the earliest days of the movement. By the Act of 1563,\* which remained on the Statute Book until 1813-14, Justices of the Peace had been given powers to assess wages, and the unions of the eighteenth century were constantly petitioning Parliament to enforce the rates thus laid down. (There were several instances of such petitions long after the provisions of the Act of 1563 had been repealed.) Later the unions took an active share in agitating for legislation, fixing a shorter working day and providing for better conditions in the factories. The Reform Act of 1832 disappointed the working classes, who had hoped for a larger measure of voting power than was granted, but the Act of 1867, which for the first time enfranchised the working classes, was followed by new union activities in the political sphere.

The trade unions hitherto had exerted political influence through the members of the older parties, but the policy

\* See p. 295.

now changed. The part played by the Trades Union Congress in the growth of the Labour Party has already been mentioned. The financing of union candidates for Parliament was temporarily checked by the Osborne Judgment of 1908 which made it illegal for a trade union to use its funds for political purposes. The Labour Party now had to depend on voluntary subscriptions, and as suitable candidates with adequate means were very few the obstacle to political activities was a real one. This difficulty was partly obviated shortly afterwards by the payment of Members by the State. By the Act of 1913 the unions were empowered to keep a separate political fund, provided that trade unionists who signed a form of objection were exempted from the political levy.

Since then the trade unions have so extended their political activities that they exercise a considerable power over the government of the country. This influence has been condemned in some quarters; firstly because the trade unions are not considered properly representative of the people; secondly because many trade unionists do not agree with the political views of their leaders, yet for one reason or another do not seek exemption from the political levy; and thirdly because the principle of sectional labour representation is wrong. Though the wage-earners and their families covered by the trade union movement constitute the great majority of the population, there is a certain danger that a few powerful trade unions may put the interests of their members before those of the community and thus bring about an undesirable form of autocracy. Many friendly critics have proposed that the unions should pool their political funds and participate in politics on a broader basis. It would not then be so possible to charge specific unions with dominating public policy. Incidentally it would help to smooth away the

differences between the trade unionist and the "intellectual" members of the Labour Party, a distinction which is unfortunate and unnecessary.

A promising development during the last few years has been the recognition on the part of the trade union movement of the need for adult education. Thousands of individual trade unionists had availed themselves of educational facilities afforded by various bodies long before the unions, as such, took any official step in encouraging or directly promoting this necessary service. A section of the trade union movement interprets adult education as propaganda. The Labour Colleges in several parts of the country confine their teaching almost entirely to subjects in which the class struggle and the means of overcoming the capitalist system play a predominant part. A large number of unions, however, take a broader view of adult education, and favour the more thorough and comprehensive instruction given by the Workers' Educational Association and by Ruskin College, Oxford.

In 1919 the Iron and Steel Trades Confederation, in conjunction with the Workers' Educational Association, entered upon an experiment for affording education facilities to the members of the Confederation. Lectures, classes and week-end schools were arranged by the joint body, known as the Workers' Educational Trade Union Committee, and the experiment was highly successful. In 1921 the Union of Post Office Workers, the Railway Clerks' Association, and the Association of Engineering and Shipbuilding Draughtsmen, in 1923 the National Society of Operative Printers and Assistants, and in 1924 the Transport and General Workers' Union, came into the scheme.

A committee, consisting of representatives of sixteen unions, was appointed in 1920 to review the position and

**Trade Unions  
and Adult  
Education.**

make recommendations. Its report, which was approved by the Trades Union Congress of 1921, stated :—

“ In providing educational facilities for the workers, it is important to realise that, while they need specialised forms of education . . . their needs are by no means confined to such specialised training. The workers want knowledge, both for the immediate and practical purposes of the Labour Movement, and also as a means to the enlargement of their mental and social outlook. They seek a knowledge not only of economic and industrial history but also of the general and social history of their own and other peoples, of literature, and of the arts and sciences. Therefore, in putting forward an educational scheme for the Trade Union Movement, while we have endeavoured to make provision for the various forms of specialised training, we have in mind above all an education broad enough to give to every worker who desires it a new sense of understanding, and therewith of power to mould the world in accordance with his human and social ideals.”

No real decision was arrived at until the Trades Union Congress of 1924. The vast majority of the unions showed themselves in favour of a more liberal educational policy than that advocated by the smaller extremist section. The latter had urged that the unions should restrict their support to those bodies teaching Marxian economics and the class war, but in view of the opposition of nearly all the large unions the proposal was withdrawn. Though the South Wales Miners and the National Union of Railwaymen were mainly responsible in the first place for creating the London Labour College, they now showed themselves averse from narrowing down educational efforts in the way desired by the extremists. The Congress instructed the General Council to participate to a greater extent in adult educational work, and to adopt schemes in co-operation with

the Workers' Educational Association, the Workers' Educational Trade Union Committee, Ruskin College and the Labour Colleges.

That this was a wise step there can be little doubt. The trade union movement, while affirming the need for propaganda, has taken the proper view of educational effort, which it refuses to identify with the creed of particular parties.

## CHAPTER VIII.

### INDUSTRIAL UNREST.

The growth of workers' and employers' organisations during the last few decades has been accompanied by a distinct increase in the number and extent of strikes and lock-outs.\* According to the Government returns, nearly three-quarters of the disputes are on account of wages, but the official classification is apt to be misleading, for some important causes operate only indirectly and do not receive their proper share of attention, if they figure at all, in the classified returns. Yet

Causes of  
Discontent.  
(a) The  
Worker's  
Share.

\* The following table from the *Ministry of Labour Gazette*, Jan. 1925, indicates the number of and aggregate duration of trade disputes in the years 1910-1924.

Year.	No. of disputes beginning in year.	Aggregate duration in working days of all disputes.	Year.	No. of disputes beginning in year.	Aggregate duration in working days of all disputes.
1910	521	9,867,000	1918	1,165	5,875,000
1911	872	10,155,000	1919	1,352	34,969,000
1912	834	40,890,000	1920	1,607	26,567,000
1913	1,459	9,804,000	1921	763	85,872,000
1914	972	9,878,000	1922	576	19,850,000
1915	672	2,953,000	1923	628	10,672,000
1916	532	2,446,000	1924	692	8,312,000
1917	730	5,647,000			

after allowing for the other factors, the dissatisfaction of the worker with his share of the proceeds of industry remains the cardinal cause of discontent.

It is not necessarily mere jealousy of the particular employer's reward that makes a man aggrieved with his own portion. In the modern joint stock company the profits are divided largely among shareholders who themselves do not actively participate in the conduct of the firm. Resentment is felt, not so much against the individual who is directing his own business or against the high-salaried manager, who admittedly is performing a useful service in production, as against the capitalist shareholders who exercise their rights, but, so it is argued, perform no direct functions. Even if the worker is persuaded that the capitalist shareholders are providing an indispensable factor of production in the form of machinery, plant and stock, and are undertaking a large part of the risks of the business, he is not thereby convinced that the reward is a proper measure of the sacrifice. When he reads of huge dividends he feels that he is being robbed of his fair reward ; and this dissatisfaction is not removed by his being told that other firms are not making such large profits and may even be suffering a loss. He sees people living comfortable lives by the mere ownership of property in various forms, and though he grants that capital goods are essential to production he denies the justice of their securing such a large proportion of the proceeds.

It is a psychological as well as an economic problem. The worker, so far as his material consumption is concerned, is on the whole better off than he was in the earlier economic systems, and yet he is less contented. The dissatisfaction is due largely to the growth of education among the workers, who are now more than ever debating their true function and place in society. It is also attributable to the rise of

the joint stock system, which meant a severance between the ownership and control of capital, and the breaking of the personal bond between the employer and the employed. Again, the disparity between the standards of living of master and man respectively is much greater than it was in former days. The worker does not compare his position with that of his ancestor ; he puts it beside that of the contemporary employing class and observes how wide is the gap between them. The post-war years have demonstrated a further psychological influence on industrial unrest. During the war many of the wage-earners enjoyed a standard of living never before experienced. The drop in real wages following the war still leaves certain grades of workers better off than in 1913. Nevertheless they feel aggrieved through having to renounce some of the comforts which they had come to regard as part of their normal consumption.

Bound up with the question of remuneration is that of hours and working conditions. Many bitter  
 (b) **Hours and Conditions of Employment.** disputes have been caused over the length of the working day. In so far as higher wages or fewer hours lead to a heightened efficiency of the worker and a better organisation of the business, it may be in the employer's own interests to grant these concessions without resort to industrial warfare. But when the limit has been passed, the employer is loth to sacrifice part of his profits without a fight. The system of overtime, especially when there is unemployment in the trade, has been responsible for much unrest. Firms often find it cheaper to employ men for a few extra hours, thus economising in standing charges, than to engage a fresh set of men who, in the absence of a shift system, would entail additional outlay on plant. And when, as in the motor industry, the demand for labour

tends to be seasonal, the employers find an additional reason for not engaging extra men and installing new machinery which would only be used during the busy months of the year.

From the standpoint of the workers, systematic over-time is opposed, firstly because it is a retrogressive practice which partly nullifies the concession of a shorter working day, secondly because it might be used to cut down the standard day rate, thirdly because it adversely affects their health, and fourthly, where there is unemployment in the trade, because its elimination would in particular instances cause more workers to be employed.\*

Several strikes have been occasioned through the refusal of employers in certain industries to recognise the trade union as the official and competent bargaining body. The railway workers, for example, engaged in a long agitation, marked by more than one strike, before their unions were fully recognised by the railway companies. An increasing majority of employers, however, now admit the right of the workers to bargain and negotiate through the union, with the result that the number of "recognition" strikes is declining. This cause of industrial unrest is not so important as the others mentioned. The struggle for recognition was an indispensable preliminary to the success of trade unionism, and with the attainment of this object the workers are able to press for more tangible concessions.

The keener intellects among the workers demonstrate a growing desire to participate in the control of industry. They are not only discontented with the low wages, the long hours and the monotony of the work, but they are dissatisfied with the arrangement that puts the worker in a

(c) Trade  
Union  
Recognition.

(d) The  
Worker's  
Status.

\* See above, pp.109-111.

subordinate position, depriving him of his individuality, and offering no opportunity for full development of his abilities. They desire to give expression to their creative instincts that tend to be suppressed under the present system. They emphasise with growing force the demand for self-determination in industrial as well as in other matters. They wish to improve on the system that produces for profit rather than for social utility.

Some of the leaders, who would be content with making the worker an active partner with the capitalist in the direction of industry, support the movement for Joint Industrial Councils. Others go further, and aim through strikes and other means at the total elimination of the capitalist employer, thereby giving to the workers, including the salaried managers and administrative staff, the sole control of industrial policy. The object in either case is to raise the status of the worker from the position of what is termed a wage-slave. This new outlook has already resulted in several industrial disputes and is certain to exercise still greater influence in the future. Hence in recent years various schemes have sprung up with a view to giving the workers a degree of managerial function, but so far the amount of power thus transferred has been very small. Before considering these schemes, however, it is necessary to examine the ordinary conciliatory machinery which still provides the principal means of securing industrial peace.

Adequate organisation on both sides of the wage contract is indispensable to successful collective bargaining. The larger and more widespread the industry the more imperative is the need for a satisfactory bargaining and negotiating machinery equally representative of both parties. The disputes that such a body endeavours to settle are of two

**Conciliation  
and  
Arbitration.**

types, those arising from differences in the interpretation and application of existing contracts, and those springing from disagreement in the establishment of new principles and the drawing up of fresh arrangements. The latter type of dispute is the more difficult to solve. The use and chances of success of one plan or another depend partly upon the nature of the dispute. If the question at issue is merely one of elucidating a knotty point in a previous agreement, the ordinary conciliatory methods should suffice ; where the question introduces a new principle, more elaborate and sometimes drastic methods have to be employed.

The machinery for dealing with disputes may be roughly classified under the headings of (*a*) conciliation, (*b*) mediation and (*c*) arbitration. By conciliation boards are meant joint conferences of equal numbers of employers' and workers' representatives, who endeavour to arrive at an agreement without any intervention from other quarters. By mediation is meant the intervention of an outsider when the negotiations of the ordinary conciliation board appear to be breaking down. By arbitration is meant the making of an award by a person or persons to whom the dispute has been referred. The "outsider" may be a private individual whose honesty and ability are recognised by both parties, or a non-governmental board, or a board appointed by the State.

These methods are not mutually exclusive, and arrangements are common which depend on more than one of such methods. Conciliation and mediation are frequently classed together. They are alike in that they are both essentially voluntary in character, *i.e.* the decision is not legally binding on either of the parties. Arbitration too may be voluntary in nature. Many conciliation boards provide that in the event of disagreement the dispute shall be

referred to an arbitrator who, after fair review of the question, is expected to give an impartial decision. The parties are under no legal obligation to accept the award. The advantage of conciliation, mediation, and voluntary submission to arbitration rests on the greater trust in, and sincerer observance of, the decision than would usually be possible if the award were compulsory.

There is a form of machinery intermediate between voluntary and compulsory investigation, with or without prohibition of strikes or lock-outs pending the decision, but with no legal power to enforce the award. This method, together with such prohibition, was introduced by the Canadian Industrial Disputes Act, 1907. A step was taken in this direction in Great Britain, but without any legal prohibition of strikes or lock-outs, in the Industrial Courts Act of 1919, which is explained more fully below. Finally, there is arbitration with compulsory powers, or as it is generally though loosely termed, compulsory arbitration; strikes and lock-outs are not only made illegal during the investigation, but the decision of the arbitrator is enforceable at law. This method was adopted more or less stringently in the several States of Australia and in New Zealand,\* but industrial warfare was not altogether prevented. In 1918 strikes were once more legally permitted in Australia. Compulsory arbitration was introduced into this country as an emergency measure during the war, and was withdrawn shortly after the Armistice.

Compulsory arbitration is opposed by organised labour, which jealously adheres to the "right to strike." It is contended that under this system the workmen would lose their power to strike, but the employer would still retain his freedom to discharge, though technically he would be forbidden to declare a lock-out. Trade unionism would

\* Cf. account of Wages Boards in Australasia, *supra*, p. 75.

necessarily suffer under a system of compulsory arbitration. There is the further difficulty of finding a satisfactory arbitrator for all the disputes. The ideal arbitrator would be a man of strict impartiality, with a thorough knowledge of conditions in the particular industry. "Strict impartiality" is almost impossible, and those who are fully conversant with an industry usually have an interest in it, either from the employer's or the worker's side. A bias in the award might be fatal to the chances of peace. But even if the ideal arbitrator could be secured, the results would not, as a rule, be as satisfactory as those accruing from voluntary bargaining. The parties would not feel the same honourable obligation to fulfil their word as in the case of voluntary agreements. If compulsion is ever to be introduced in this country (and public opinion is strongly against it at the present time), it should be resorted to only after every other avenue has been fully explored; and even then it should be applied to the interpretation of existing agreements rather than to the establishment of fresh principles.

Though legislation dealing with industrial disputes goes back over a century, the attempts before 1896 were but half-hearted and did little to prevent the ruptures that were steadily becoming more serious. The Act of 1824 gave Justices of the Peace arbitrary powers, and the Acts of 1867 and 1872 provided for conciliation boards, but very little was effected. Following the Report of the Labour Commission, published in 1894, the Conciliation Act of 1896 was passed. It emphasised the voluntary principle which has always been typical of British legislation on this subject. Trades were encouraged to form conciliation boards where these were not already constituted. The Board of Trade was empowered to offer

**British  
Legislation  
relating to  
Industrial  
Disputes.**

mediation ; on the invitation of one party, it could appoint a conciliator ; and on the application of both parties it could appoint an arbitrator. The decisions were not legally binding, though it was anticipated that the parties would as a rule honourably observe them.

The Act of 1896 was moderately successful. The number of registered conciliation boards steadily grew and the Board of Trade was instrumental in preventing a large number of strikes and lock-outs. In 1908 a permanent Court of Arbitration was appointed, followed three years later by the Industrial Council. This Council, under the chairmanship of a permanent official, was a joint panel of representatives of employers and employed, whose function was to advise and assist the Board of Trade in its conciliation and arbitration activities. The years before the war witnessed national strikes, to deal with which the existing machinery proved entirely inadequate.

The war brought about a temporary change of policy. The exigencies of the time were responsible for the Munitions of War Acts of 1915-17 which declared strikes to be illegal and made the decision of the Boards of Arbitration legally binding. The workers submitted to this compulsion only while the war lasted, and the Act were repealed in 1919. During this period there was a pronounced reduction in the number of disputes,\* but the conditions were so exceptional that the experience of these years cannot be regarded as a sufficient justification for a change in present policy. In 1919, too, the Industrial Courts Act was passed, embodying the proposals of the Whitley Committee, which had strongly reported against any system of compulsory arbitration, emphasising " the advisability of a continuance, as far as possible, of the present system whereby

\* See Table, p. 178.

industries make their own agreements and settle their differences themselves.”\*

Part I. of the Act of 1919 established a Standing Industrial Court, composed of workers’ and employers’ representatives and independent persons, all nominated by the Ministry of Labour. With the consent of both parties, any dispute may be referred to the Court. For each case the president chooses from the panel such members as he thinks fit. The chairman, who is appointed from the independent members, acts as umpire, though his decision is not legally enforceable.† Part II. of the Act empowers the Ministry of Labour to set up a Court of Inquiry to investigate any dispute and publish the report. Publicity was invoked as an ally in the settlement of industrial differences—a very useful step.

A considerable number of disputes have come under the Act, and many notable awards have been made. In the case of the Dockers’ Court of Inquiry, 1920, for example, the light thrown on the conditions at the docks aroused public sympathy with the workers; the employers were compelled largely through force of opinion to grant important concessions, and a strike was averted. The Industrial Court is still fulfilling a useful service, but its function is necessarily limited. To the extent that disputes spring from deep-rooted dissatisfaction with economic and social conditions, no procedure based on a tacit acceptance of the present system offers a likelihood of permanent industrial peace.

\* See Appendix C for the recommendations in the Fourth Whitley Report.

† When introduced into Parliament the Bill provided for compulsory arbitration, making trade union funds liable for losses occasioned by strikes against decisions of the Court. Opposition from the Labour Party led to the removal of the relevant clauses.

In 1916 the Government appointed a Committee to consider means of improving relations between employers and workmen. The first Whitley Report (so named after the chairman) was issued in 1919. It classified industries into three main groups : (a) adequately organised industries, with representative bodies of employers and employed, (b) partly organised industries, and (c) unorganised industries.

The Committee were primarily concerned in their earliest Report with the first group. Expressing the "considered opinion that an essential condition of securing a permanent improvement in the relations between employers and employed is that there should be adequate organisation on the part of both employers and workpeople," the Committee proposed the voluntary establishment of National Joint Standing Industrial Councils in the several industries. These Councils were to be much wider in function than the ordinary conciliation boards, for in addition to the work of conciliation they were expected to have some voice in the regulation of working conditions in the respective industries.\* It was also proposed that representative District Councils should be set up for the different areas, and further that Workshop Committees should be established representing the management and workers of single firms.

This three-fold plan, it was submitted, would effect a distinct improvement in industrial relations. Problems affecting the entire industry would be dealt with by the National Joint Councils, local questions would come before the District Councils, while matters affecting the internal

\* See Appendix C for fuller extracts from this and the following Whitley Reports.

relations of a particular firm would be considered by the Workshop Committee. The National Council would be concerned only with problems of general policy together with questions that were left unsettled by the local and shop committees.

The second Report of the Whitley Committee dealt with the less organised industries. Those already possessing some form of organisation were recommended to set up National Joint Councils, containing one or two Government representatives, who were merely to act in an advisory capacity and have no voting power. For those industries with practically no organisation at all, it was proposed that Trade Boards should be continued or established, and that these Boards should have powers to deal with hours and conditions of labour in addition to fixing a minimum wage. It was anticipated that Trade Board minima would facilitate the organisation of the workers,\* and ultimately make possible the establishment of Joint Councils on the lines prescribed for the better organised trades.

While the Whitley Scheme was received enthusiastically in many quarters, it did not appeal to certain important sections of employers and workers. Several firms affiliated to the Federation of British Industries opposed the setting-up of Joint Councils, and so did the leaders of the Shop Steward Movement, who objected to the implied compromise between the interests of Labour and Capital. The large unions, too, were very lukewarm in their attitude, and in most cases preferred to carry on with their existing machinery. Whitley Councils were established mainly in

**Work of Joint  
Industrial  
Councils.**

\* Cf. above, pp. 79-81.

the second category of industries, viz., those only partly organised, and also in Government and municipal departments. Practically no industry has adopted the full measure of National, District and Workshop Councils. The Report on the Establishment and Progress of Joint Industrial Councils, published in 1923, stated that in the first five years there had been set up 73 Joint Councils (of which 15 had already ceased to function), about 150 District Councils (apart from Departmental Councils in the Civil Service) and over 1,000 Works Committees. "Certain of the important and well-organised industries of the country, *e.g.* coal-mining, cotton, engineering, shipbuilding and iron and steel manufacture, having... well-established machinery for the discussion of matters between employers' and workers' organisations, have not established Joint Industrial Councils on the lines of the 'Whitley' Scheme." The number of workpeople covered by the scheme was estimated to be about three millions. The duties of the Councils were concerned mainly with wages and conditions, and in very rare instances was any appreciable managerial function conceded to the workers. Many people who previously supported the scheme are now dissatisfied with the negligible measure of industrial control that has been transferred to the workers' organisations.

The question has been raised on several occasions whether voluntary agreements effected by the Joint Industrial Councils should not be made legally enforceable. The Trades Union Congress of 1923 voted emphatically against granting such statutory powers to the Councils. Even with the present arrangement, the extent to which the scheme has been put into operation has fallen short of the aspirations of its originators; and what little success has been attained would almost certainly be prejudiced by

the abandonment of the voluntary principle. Employers and workers in an industry who are thinking of forming a Joint Industrial Council are liable to be deterred rather than encouraged by the prospect of voluntary agreements being made legally binding.

The motives behind the establishment of Workshop Committees have varied widely. The workers regard the committee as a means of sharing in the management of the works. Employers view it as an instrument for reducing unrest and increasing efficiency. Properly constituted shop committees are advantageous to the workers in settling, on the spot, differences regarding wages and hours in the individual firm (provided that the standard rates are determined by the more comprehensive bodies representing the trade unions and the employers), and in deciding questions arising from the introduction of new processes and the allocation of different grades of workers to particular tasks and machines. They can consider grievances such as unfair treatment and wrongful dismissal, maintain discipline and the observance of shop rules, and perform sundry other functions. Instances are very few, however, in which the workers are given any material share in the management, while participation by them in the direction of policy is practically non-existent. The workers who helped to form shop committees with such objects in view are generally disappointed with the results.

The employer would benefit from the reduction of internal disputes, and also by being able to interpret to the workers, through the committee, the new rules and processes. Much friction that arises through promotions, etc., might be prevented by full consideration in the Shop Committee. A decision approved by the mens' representatives would not be so likely to cause irritation as one that

was thrust upon the workers without any opportunity of discussion.\*

Some employers, in an attempt to improve upon the existing wages system, have introduced a  
**Profit-sharing.** scheme of profit-sharing, whereby the workers receive "in partial remuneration of their labour, and in addition to their wages, a share, fixed beforehand, in the profits realised by the undertaking to which the profit-sharing scheme relates."† The requirement that the share shall be "fixed in advance" was included in the resolution of the International Congress on Profit-sharing, held in Paris in 1889, and has since been constantly affirmed. It is essential that the percentage should not be subject to the absolute discretion of the employer. Further, the scheme, if it is to be satisfactory, should apply to a large proportion of the adult employees. The Government Report suggests 75 per cent. as the minimum.‡ The share in the profits must be sharply distinguished from ordinary premiums or gratuities. The object is to permit

\* One employer who attaches much faith to this form of joint organisation proposes several shop committees for each works. The first should be a Shop Stewards' Committee, dealing with controversial points on which the employers and workers are apparently opposed, *e.g.* wage rates, dilution, new processes, etc. The second should be a Welfare Committee, concerned with "community" questions, such as shop rules, shift arrangements, accidents, promotion, grievances, education, etc. The third should be a Social Committee, looking after amenities and recreational activities, mainly outside working hours. A fourth might be a Staff Committee for the salaried members of the firm. All these might ultimately combine to form a complete Works Committee.—C. G. Renold, Memorandum presented to the British Association, Section F, amplified in Part III. of *British Labour, Replacement and Conciliation* (1921), edited by A. W. Kirkaldy.

† *Report on Profit-sharing and Labour Co-partnership in the United Kingdom*, 1920 (Cmd. 544), p. 3.

‡ *Ibid.*, p. 5.

the worker to participate in the profits after all expenses in connection with ordinary remuneration have been met.

The share in the profits may be paid in any of three forms. The worker may receive cash payments at specified dates ; or the bonus may be deferred for a specified term and then paid out on certain conditions (*e.g.* not leaving the firm within a given period) ; or payment may take the form of stock in the company, with or without restrictions as to transfer or sale. The first and the third methods are the most usual.

Employers institute profit-sharing schemes for different reasons. One class of employer avows philanthropy as the motive. Another aims at luring the workers from the unions. A third, by making the workers financially interested in the profits of the business, seeks a higher output ; to the extent that the worker regards himself as a partner in the firm, there may be a tendency to reduce waste, preserve plant, etc., thus increasing the efficiency of the business.

#### PROFIT-SHARING AND CO-PARTNERSHIP SCHEMES.\*

Period during which started.	Total number of schemes started in period.	Schemes in existence in 1919.	
		Number.	Per cent. of total started.
Up to 1870	20	3	15
1871-1880	18	5	28
1881-1890	79	14	18
1891-1900	77	14	18
1901-1910	80	51	64
1911-1918	77	66	86
1919 (ten months)	29	29	100
Total	380	182	48

\* *Report, 1920.*

But the bonus would have to be more appreciable than it usually is, if the scheme is to have any marked success. Before the bonus is allocated, the minimum interest on capital is usually deducted, and allowance is made for reserve; and only then does the worker begin to participate. Even if he gets 50 per cent. of what remains after the above charges have been met, the sum when divided among all the workers often assumes extremely small dimensions. In 1918 the average bonus per head in 105 schemes amounted to £3 13s. 6d.—about 1s. 5d. per week. And when the bonus is not paid for six months or a year, and especially if it is contingent on certain conditions being fulfilled in the meantime, the remoteness weakens what little incentive to extra effort there may be. As a stimulus to better work, the profit bonus is, as a rule, much inferior to a direct wage increase.

Among other drawbacks of profit-sharing may be mentioned the resentment felt by workers who, having given of their best, find that bad management, in the control of which the workers have no power, may nullify the advantage and so cancel or reduce the profit bonus.\* The workers are also liable to feel aggrieved when, in time of depression, there is a reduction in the bonus which they have become accustomed to regard as part of their normal remuneration. "While increased bonus does not stimulate, a decrease is very prone to irritate."† Added to this is the dissatisfaction of many employers who have instituted such schemes but find that the expected greater output and co-operation have not materialised.

\* See article by Sir William Ashley in the *Quarterly Review*, October 1913.

† Bowie, *Sharing Profits with Employers*, 1922.

Recognising that the participation in profits without any powers in the direction of the business is an inherent drawback to profit-sharing in its simplest form, a few employers have attempted to remedy this deficiency by giving the employees a certain measure of representation on the board of management. Co-partnership is wider in scope than profit-sharing. Labour co-partnership in its early days was regarded as a form of co-operation, intended ultimately to supplant the capitalist system. The Christian Socialists set up self-governing workshops which were literally conducted on labour co-partnership lines. Nearly all these experiments, however, were unsuccessful,\* and the term co-partnership came to be applied to schemes which are mainly capitalist in character. While a specified proportion of the directors might be representative of the employees, they are almost invariably in a minority on the board of management.

Co-partnership schemes usually, though not necessarily, include a system of profit-sharing. The bonus may take the form of shares which are allowed to accumulate, thus giving the workers the right to vote in accordance with their position as shareholders. Instances are found in which the workers acquire the shares by purchase in the ordinary way (special facilities sometimes being provided), and also in which the firm distributes shares among the employees in consideration of service.

The following principles laid down by the Labour Co-partnership Association† illustrate the growth from ordinary profit-sharing methods to the acquisition of a limited amount of managerial powers.

“(1) That the worker should receive, in addition to the

\* See next chapter for account of co-operation of producers.

† Feb. 1919.

standard wages of the trade, some share in the final profit of the business, or the economy of production.

“(2) That the worker should accumulate his share of profit, or part thereof, in the capital of the business employing him, thus gaining the ordinary rights and responsibilities of a shareholder.

“(3) That the worker should acquire some share in the control of the business in the two following ways:—

- (a) By acquiring share capital, and thus gaining the ordinary rights and responsibilities of a shareholder.
- (b) By the formation of a Co-partnership Committee of workers, having a voice in the internal management.”

It is significant of the advancing position of labour that in the previous manifesto of this Association, published eight years previously,\* the third paragraph had not yet been introduced into the official statement of the nature of co-partnership.

Despite the results obtained by a few particular firms,† co-partnership schemes have not, on the whole, been more successful than ordinary profit-sharing systems. The gas industry is often pointed out as one in which co-partnership has had a large success, but here the conditions are exceptionally favourable. The law compels a certain relation between the dividends and the price of gas. The directors adopt a sliding-scale plan which practically guarantees profits and so facilitates profit-sharing.‡ Other

\* Oct. 1911.

† Such as Messrs. Lever Brothers, Port Sunlight, and Messrs. J. T. and J. Taylor, Batley.

‡ The following extract has relation to the South Metropolitan Gas Company: “When gas costs 3s. 1d. per 1,000 cubic feet the shares could receive 4 per cent. interest, and for every 1d. that the price of gas fell, the rates of interest could rise by 2s. 8d. per £100.

advantages of gas companies are their relative immunity from risks, their steady market and their quasi-monopolist nature. Success of profit-sharing and co-partnership in this industry, therefore, is not a satisfactory criterion for its application elsewhere.

Out of 380 schemes started before 1920, over a half had ceased to exist at that date.\* The average

Causes of  
Abandonment  
of Profit-  
sharing and  
Co-partnership  
Schemes.

duration of the surviving schemes is about 14 years, compared with  $12\frac{1}{2}$  years, which was the average of the surviving schemes quoted in the previous report of 1912.

The chief causes of abandonment are shown to be:—

(a) *Dissatisfaction with scheme.* About 50 per cent. of the schemes were abandoned owing to dissatisfaction on the part of the employers or the employees. Out of 91 abandonments, 67 were attributed to employers' dissatisfaction (the apathy of the workers frequently being given as the reason), 10 to the substitution of bonuses and other benefits on a non-profit-sharing basis, 13 to the opposition of workers and trade unions, and 1 to opposition of both employers' and workmens' organisations.

(b) *Financial reasons.* 49 schemes were abandoned owing to business failure, fall of profits, liquidation or dissolution.

(c) *Altered circumstances.* Such events as the death of the employer, change of management, conversion to limited liability company, etc., accounted for 36 abandonments.

For every fall of 1d. in the price of gas below 3s. 1d., a dividend in wages should be paid of  $\frac{3}{4}$  per cent. If, for example, gas cost 2s. 6d., then capital would receive a dividend of 4 per cent. plus  $7 \times 2s. 8d.$  per cent. . . 4·9 per cent. and labour  $7 \times \frac{3}{4} = 5\frac{1}{4}$  per cent." Bowie, *op. cit.*, p. 217.

\* *Report*, 1920, p. 10.

(d) *Cause unknown.* In 16 cases the reasons are not known, or available for publication, or sufficient to admit of definite conclusion.

The development of such schemes has been very irregular, and has apparently been influenced more by the personal enthusiasm of advocates at different times than by any fundamental industrial cause. "A movement in favour of Profit-sharing is started, and for two, three or four years it continues with great energy; then the impetus dies down, and the movement is quiescent, sometimes for a long period of years. The years 1889-92, 1908-9, 1912-14 and 1919 were periods of maximum activity; while the whole periods 1893-1907, the year 1911 and the period of the war, were periods of quiescence."\*

So far as any connection can be traced between industrial conditions and "booms" in profit-sharing and co-partnership schemes, there seems to be, firstly, a certain coincidence with periods of industrial unrest, when employers are more inclined to experiment with such schemes with a view to allaying discontent. Secondly, there is a rough correspondence between periods of activity in profit-sharing and those of good employment. When employment is good, profits are usually high, and employers are thus more likely to enter into such schemes than they would be in times of bad employment and low profits.

Certain aspects of profit-sharing and co-partnership are very obscure. Is the profit bonus earned or is it gratuitous? If the bonus is the specific result of extra effort, it is desirable, as suggested above, that the payment should take the form of additional wages rather than that of a share in the profits.

\* *Report*, 1920, p. 11.

If the bonus is not accompanied by extra output yet the firm continues to pay it, and still makes a reasonable profit, then the employees might reason that all along they have been deprived of what is rightfully theirs. Economic analysis shows that an important element in profits is the reward for risk. Is the worker expected to incur this responsibility? If it is admitted that the employee shares in the enterprise of the business (and the risk of unemployment and other contingencies proves the worker to bear the risks of industry to a greater extent than is popularly supposed), then again he can claim the bonus, or part of it, as a right. If, on the other hand, his participation in the risk is denied, then a profit bonus would resemble a pure gift, which is hardly consistent with real profit-sharing and clearly opposed to the idea of true co-partnership. The basis of profit-sharing and co-partnership, therefore, is very uncertain and it behoves the advocates to be more explicit in what they believe to be the essential principles of such schemes.

## CHAPTER IX.

### THE CO-OPERATIVE MOVEMENT.

In this country one usually understands the term co-operation to refer to associations of purchasers who have set up stores in nearly all districts, and by eliminating the middleman have secured the pecuniary gains for themselves. While co-operation of consumers is the most extensive form that the movement has taken, it is necessary to distinguish other forms of co-operative enterprise, which on the Continent particularly have been very successful.

**Producers'  
Societies.**

Firstly, one may distinguish societies of producers, in which a number of people not only subscribe some or all of the requisite capital, but provide their services as well. The product is sold in the ordinary way, usually to co-operative stores, and the proceeds are divided among the producers, yielding a surplus over and above what would ordinarily be the wages of their labour.

In the early days of the movement, this form of co-operation was more common than associations of purchasers, but it never became really popular in Great Britain. Many producers' societies were begun at the end of the eighteenth and the beginning of the nineteenth centuries—for example, the society in Hull which, on account of the high prices charged by the local millers, decided to make their own flour. The scope of these ventures was very limited, and few of them succeeded for any length of time.

Following a period of quiescence, the movement was revived for a time in the middle of last century by the Christian Socialists who set up co-operative workshops in the hope that these would ultimately supplant the capitalist system. A few of these ventures had a measure of success, but most of them gradually disappeared. Since then, spasmodic attempts have been made to invigorate co-operation of producers, but there appears to be little hope of any appreciable extension in this country. At the present time these societies, though they number over 100, have a membership of less than 40,000. Moreover, a large part of this capital is subscribed by the associations of consumers and by outside sympathisers, and to that extent the self-governing principle is weakened.

**PRODUCTIVE SOCIETIES (Exclusive of the Wholesale Societies.)\***

	Number of Societies	Mem- bership	Share and Loan Capital	Trade	Surplus	Wages
			£	£	£	£
1919	95	39,331	2,299,565	7,047,147	487,282	1,232,127
1920	105	42,855	2,788,573	9,222,699	539,733	1,673,461
1921	102	38,360	2,891,744	6,581,587	322,358	1,475,416
1922	105	38,138	2,938,786	5,318,077	314,904	1,350,071
1923	105	37,868	3,016,044	5,104,600	278,506	1,276,795

The consumers' societies have more than a hundred times as many members as the producers' societies, while the wholesale societies alone turn out six times as much as the producers' societies. These figures, however, are not altogether comparable, since a member of a producers' society gives his full time to its activities, whereas the ordinary member of a consumers' society is only interested

\* For statistics of the Co-operative Movement, see the C.W.S. annual, *The People's Year Book*.

as a purchaser. Strictly speaking, the member of a producers' society is a truer co-operator than the member of a consumers' society, and from one standpoint it is regrettable that the producers' movement has made so little headway.

The activities at present are mainly confined to the textile, boot and shoe, and printing trades. In France and other European countries associations of producers are more successful, and cover a much wider ground. Such societies have failed so far in this country partly through inadequate capital, partly through lack of experience and managerial ability, and largely through the growth and competition of large-scale enterprise which has in most instances undercut the societies of producers and rendered their existence increasingly difficult. The scheme of producers' co-operation in this country became merged largely in the profit-sharing and co-partnership movement.\*

Another form of co-operation is provided by those societies, formed to supply credit to their members and other clients. Producers and traders who desire financial accommodation receive the necessary assistance from the bank of which they are often part owners; they not only receive this facility at a comparatively low rate, but, if members, are assured that any surplus will come back to them in proportion to the use made of the institution. This branch of the co-operative movement is fairly prevalent in many European countries, but has not reached serious dimensions as yet in Great Britain. The Co-operative Wholesale Society has established a bank which deals with the retailers' societies and also with the trade union movement; but, as the number of producers' societies is relatively small here, the need of credit from this direction is limited.

Co-operation in  
Banking and  
Agriculture.

\* See above, pp. 195-7.

Co-operation in agriculture has been carried to an advanced degree on the Continent ; in Denmark, for instance, 90 per cent. of the butter is produced by co-operative agency. Machinery, creameries, etc., are collectively owned by the farmer co-operators. Here again, Great Britain has lagged behind, though the movement has had some success in Ireland. There is a certain resemblance between co-operation of producers as described above and that in agriculture. An important difference, however, is that the farmer, apart from the use of co-operative appliances, usually cultivates his land and rears the stock in the ordinary individualistic manner ; the co-operation with other farmers takes place in the *selling* of the produce. A kind of monopoly is formed under which the farmers and dairymen refrain from competition with each other and agree to sell their output through a common sales agency.

Similarly, a distinction must be drawn between this form of co-operation, which to a large extent includes employers of labour, and those mutual activities which are more specifically designed to further the interests of the working classes. Even the consumers' co-operative movement has been denounced by "advanced" critics as capitalistic ; a body which includes employers and secures high prices by combination against the consumer is still more vehemently condemned. Whatever be the merits of this form of co-operation, therefore, it cannot be regarded as part of the labour movement.

Co-operation in the early period of its growth in this country was chiefly confined to producers.

**Growth of the Consumers' Co-operative Movement.** The first thirty or forty years of the nineteenth century witnessed numerous schemes of this character, prominent among which were the experiments of Robert Owen. Most of the attempts were either too limited in their scope to be of

much account, or too utopian in their aims to secure any degree of success. The principles of the early co-operators were found just as impracticable as those of the ardent trade unionists of the same period. New aims and standards were imperative if the two movements were to advance. The Amalgamated Society of Engineers provided trade unionism with a "new model"; the Rochdale Pioneers performed a similar service for co-operation.

In 1844 a few artisans in Rochdale formed a society whose constitution and methods were adopted by subsequent societies all over the country. The principle of co-operation for consumers was frankly accepted, though the pioneers did not altogether abandon the idea of co-operative production. People did not find this form of co-operation so difficult as the more ambitious kind. They were able to carry on their ordinary work and were not obliged to give more care or time to the new movement than their enthusiasm dictated. Societies rapidly sprang up, especially in the industrial districts of the Midlands and the North, and the membership increased in proportion.

Having cut out the middleman in trading, co-operators now began to ask themselves whether they could not supplant the manufacturer himself. Several societies began to produce articles of food and clothing in their own establishments.\* In 1864 a bigger step was taken when the

\* Though the productive branches of the local societies are now overshadowed by those of the wholesale societies, they often attain large dimensions. Most societies have their own bakeries, while many have opened up clothing factories, coal-mines, etc. Desborough, a Northamptonshire village, has most of its population in the local co-operative society, which has been enterprising enough not only to buy the land on which the village stands and so become its own lord of the manor, but to purchase the land of the neighbouring village as well. (See Webb, *The Consumers' Co-operative Movement*, pp. 75-6.)

English Co-operative Wholesale Society was formed, followed five years later by the Scottish C.W.S. The wholesale societies, which combine trading with producing,\* stand on the same position to the retail societies as the latter do to the individual members, *i.e.*, the surplus of the wholesale societies is distributed among the retail societies in proportion to the latter's purchases in the same way as the dividend of the ordinary store is allocated among the individual members. The C.W.S. is governed by a body representing the retail societies, which send one delegate for five hundred members plus delegation according to purchases.

The producing activities of the wholesale societies were at first confined to the elemental necessities of life, but they rapidly extended in scope and in magnitude. Factories and warehouses were established in an ever increasing degree, supplying one want after another, until the major portion of the average person's needs could be satisfied from co-operative sources. About five-eighths of the goods sold by retail societies come from the C.W.S., which now has its own coalfields, its Canadian wheat lands, its tea and cocoa plantations and numerous other sources of materials and foodstuffs. It has its own wharves and ships and depôts all over the world. The C.W.S. Bank deals with 1,000 local societies, 5,000 trade unions and friendly societies, and 2,000 working men's clubs. There is also an extensive system of life and fire insurance. Many societies, acting with the C.W.S., provide a "collective life assurance" to members and their families without any specific premiums, the benefits varying in proportion to the purchases.

\* At the present time the distributive departments of the wholesale societies have about three times the sales of the productive departments.

It is necessary to draw a sharp distinction between the productive functions of the C.W.S. and the activities of the self-governing producers' societies mentioned above. The factories and plantations of the C.W.S. are directed by bodies appointed almost entirely by the consumers' societies. The position of the employees, so far as controlling powers are concerned, is not dissimilar to that of workers in the ordinary capitalist firm. On the average, co-operative employees receive better wages and conditions than they would elsewhere, but they are in a very different position from those people who work in the producers' societies, but at the same time have some voice in the management.

The expansion has been so rapid, and so much fresh ground has been broken during the last few years, that many prophecies as to the limitations of co-operative enterprise have been falsified. The table on p. 207 shows the nature and extent of co-operative trading in Great Britain during 1919-22. Some idea of the extent of co-operative trading is afforded by the fact that about a half of the population are supplied with about three-fifths of their ordinary requirements from the co-operative stores.

The consumers' co-operative movement has been criticised as capitalist in nature and therefore inconsistent with the true ideals of the labour movement. Co-operators are alleged to aim at profits in the same way as the capitalist firm, and since profit-making is said to be opposed to the real interests of the worker, the societies are regarded as being but a makeshift and temporary device. It is true that the co-operative societies are not as aggressive and class-conscious as the average trade union. It is also true that they frankly accept the present method of production and trading. But it is incorrect to say that they are either capitalist in nature

**Co-operation  
Distinguished  
from  
Capitalism.**

# DISTRIBUTIVE TRADING SOCIETIES IN GREAT BRITAIN, 1919-22.\*

Industry, Business or Trade.	No. of Re- turns.	No. of Members.	Sales. £	Total Salaries & Wages. £	Surplus on year's Working. £	Loans & Loan Capital. £	Share Capital. £
<b>1. Retail Societies.</b>							
General supply	1,313	4,428,442	169,642,628	18,152,671	14,253,832	7,522,032	72,987,992
Coal supply ..	38	24,903	306,333	25,074	13,873	10,768	74,737
Refreshments	44	10,735	575,164	64,129	16,349	120,713	242,489
Miscellaneous	33	7,510	558,165	31,011	(- 670)	32,901	209,659
Total 1922	1,428	4,471,590	171,082,290	18,272,884	14,283,384	7,686,414	73,514,877
" 1921	1,489	4,531,577	220,968,127	21,353,570	18,265,213	6,405,263	75,504,973
" 1920	1,467	4,443,088	246,064,774	19,680,377	25,697,610	4,960,026	76,266,483
" 1919	1,441	4,062,171	200,439,592	14,445,096	20,809,469	4,277,345	66,057,069
<b>2. Wholesale Societies.</b>							
Total 1922	5	2,267	82,979,755	5,959,854	713,237	10,222,304	6,494,628
" 1921	4	2,205	102,955,518	6,620,480	(- 4,504,129)	9,855,019	6,282,297
" 1920	3	2,186	136,479,615	7,497,894	(- 81,420)	9,077,355	5,460,270
" 1919	3	2,225	115,125,596	5,125,445	1,008,026	6,936,931	4,574,784

\* See *The People's Year Book*, for fuller statistics.

or incompatible with labour's true interests. While profits, in the rigid sense of the term, are still made, the intermediate profit maker is eliminated. All the surplus goes back to the members. The co-operative society contends with the capitalist firm, using the latter's own weapons. Its method is not so drastic or heroic as that of the trade union; but its effectiveness, in view of the enormous expansion during its comparatively short existence, cannot be denied. The fact that it has been so vigorously, and sometimes unfairly, attacked by the large joint-stock firms, hardly fits in with the allegation that the co-operators are on the side of the capitalists.

The essential differences between co-operation and capitalism may be briefly noted.

Firstly, whereas the shareholders in the joint stock company participate in the profits in proportion to their holdings of capital, the surplus of co-operative trading is allocated among the members in proportion to their purchases. The shares in the co-operative societies have a fixed interest, and, however great the surplus on the year's trading may be, the holders of these shares receive no more than the stipulated interest, apart from the dividend which they happen to receive on their purchases. Thus a comparatively poor family, which purchases the greater part of its requirements from the co-operative stores, may derive a greater financial advantage from the system than a relatively well-to-do person who has a larger number of shares but does not use the stores to the same extent.

Secondly, a definite limit is imposed on the number of shares an individual may have (usually 200 pound shares). This is not in accordance with capitalist principles.

Thirdly, at the meetings of shareholders, the voting is on a personal and not on a share basis. In the joint-stock

company, the method is one share one vote ; in the co-operative society it is one shareholder one vote. Thus the wealthier co-operators are not allowed to direct the policy of the society merely by virtue of their capital holdings.

Fourthly, dealing in shares is not permitted, and the member can withdraw his capital at any time, again demonstrating a difference between co-operation and capitalism.

Fifthly, the co-operative societies make it a set part of their policy not to enter into any agreements or understandings with trusts or other forms of monopolist combinations. On more than one occasion the refusal of the wholesale and retail co-operative societies to take advantage of a scarcity of goods, and to raise the prices to the consumer, has interfered with the plans of monopolists and kept the prices down. In emergencies, too, the co-operative societies have served the interests of the general public as well as those of their members. But for the refusal of the co-operative stores to increase the price of flour at the beginning of the Great War, the price would have risen for all consumers. Non-co-operators are more indebted to this social service of the co-operative societies than they often realise.

Sixthly, the co-operative societies, different from the capitalist joint-stock company, are open to all comers. Anybody may become a member by taking up a single share, which carries with it the right to vote upon and participate in the conduct of the society. The stores sell to non-members (in Germany and other European countries this is not permitted), but do not as a rule pay them any dividend on their purchases ; in instances where such a dividend is paid, it never exceeds a half of that paid to members. Thus an inducement is offered to all purchasers to become qualified for membership and so share in the success of the enterprise.

**The Dividend  
and Market  
Price.** There has been much controversy over the question as to whether the co-operative societies should sell at the market price and retain the present system of paying back the surplus in the form of dividends, or sell at cost price, providing of course for overhead charges and a reasonable reserve, and thus reduce the dividend to negligible proportions if not abolish it altogether.

Certain societies have gone so far as to charge prices in excess of the ordinary figure, in order that the dividend may be swelled to ample proportions. This practice, although it has the merit of promoting thrift, is on the whole to be deprecated. It does not tempt people to become members, especially the poorer classes who would find it impossible to pay more than the current rates. Even when ordinary prices are charged, many of the poor are excluded from the ranks of the co-operators, not because they buy the same goods more cheaply elsewhere, but because their incomes will not allow them to purchase anything but second-hand clothing and "scraps" of food. Raising the price above the market level would close the doors of the societies to a still greater number of the working class. Some advocate selling at less than market price, maintaining that the very poor, who at present find the prices beyond their means, would be induced to join the movement. Thrift is a desirable thing when the saver has sufficient left to provide the necessities of life. But to ask a person at or below the poverty line to stint his consumption for the sake of a dividend at the year's end is expecting too much.

Another objection to selling at market prices is really directed against the payment of dividends, which are condemned as capitalistic in character and likely to subvert the working class co-operator. Admittedly, too many

members think more of the dividend than of the true principles of co-operation. Self-interest is not the monopoly of any particular class. Just as a large number of trade unionists are more concerned with friendly and other benefits than with the fundamental principles and aims of trade unionism, and would not voluntarily join the union but for these facilities, in the same way many members of the co-operative societies have been induced to join the co-operative movement only because of the financial attractions. But selling at cost price would offer the same pecuniary attraction and would not make a man any more truly co-operative because he derived the advantage in small instalments.

Perhaps too much emphasis is laid on the "divi" in co-operative circles; yet the best line of attack is not to reduce the prices below the ordinary market level. It might be better, from one point of view, and more in keeping with the ideals of co-operation, to employ a large proportion of the surplus funds in providing generous insurance for the members (as is done by many societies abroad), a better educational service than is at present supplied, more social and recreational facilities, etc. Against this, however, has to be set the average co-operator's dependence on the dividend for the supply of personally necessary goods—maybe an overcoat or a week's holiday. Educational and recreational provisions are only attractive to the majority when the urgent physical needs have been met, and the co-operators in the mass cannot be blamed if they prefer the surplus to be distributed in a more substantial way.

Finally, the co-operative societies prefer to sell at market price in order to prevent friction with the ordinary stores. Until they have assured themselves of adequate and constant supplies from their own sources, co-operators

cannot afford to increase the friction that already exists with other concerns.\* Several instances are known in which manufacturers and merchants have deliberately placed obstacles in the way of co-operative enterprise in a vain attempt to stem its progress. Pending the time when the movement is practically independent of outside supplies, its policy of charging the current prices can be appreciated.

The co-operative store is gradually spreading all over the country, and where it supplants the small independent shop the reason is not far to seek. The co-operative society, with the vast resources of the C.W.S. behind it, can often afford facilities and services that are beyond the powers of the small-scale shop. The advantage here is simply one of large scale organisation, with its attendant economies of cheap buying and distribution, and the elimination of intermediate charges. There is no question, taking everything into consideration, as to the economic superiority of the co-operative over the small independent store. The few advantages of the latter, such as personal goodwill, granting of credit, etc., are on the whole outweighed by the more efficient large-scale enterprise. The small store is being squeezed out between the co-operative societies on the one hand, and the vast system of multiple shops on the other. Since the above economies of

**Economic Advantages of Co-operation.**

\* For example, in the matter of income-tax. Private traders resent the exemption of co-operative societies from the payment of this tax on their surplus. The exemption is mainly a matter of expediency. The majority of the members are below the income-tax line, and any deduction of tax at the source would be followed by claims for the repayment of the greater part of the sum deducted. The co-operator is expected to enter his dividends on his return, and in those cases in which his income is above the limit, tax is paid on the dividends in the same way as on the profits of ordinary investments.

the co-operative societies are shared by the multiple shops, the question arises—are there any further economies peculiar to the co-operative movement which put it in an advantageous position compared with the system of multiple shops conducted by capitalist enterprise?

In the first place, the co-operative store is assured of a constant clientèle. There is a “loyalty” of co-operators to their stores that cannot be found among the customers of the multiple shops. The regularity of the demand enables the managers to make a more exact estimate of the amount and nature of the stock, and thereby reduce the amount of waste. This “loyalty” is a considerable factor in the success of co-operative enterprise.

Secondly, the co-operative stores are not obliged to spend the same sums in advertisement as the rival competitive firms. Advertisement is socially justifiable, but only up to a certain point; after that it is waste of labour and material resources. In so far as advertising, by increasing the demand and therefore supply, cheapens the cost of production, it is beneficial, provided that the economies obtained are greater than the expenditure in advertisement, and that part of these gains is passed on to the consumer. But when money is spent merely to capture a rival's market, without any consequent economies in actual production, this vindication is not present. Advertising, then, may be profitable to particular firms, but wasteful from the standpoint of the community. The co-operative society spends a fair amount in advertising its wares and in inviting non-co-operators to join the movement. The scale of production and distribution is enlarged, and undoubted economies result. The same advantage accrues, though to a smaller degree, to the multiple shops. But whereas one co-operative society does not advertise to attract members from another such society, the multiple

shop companies are constantly spending large sums to induce customers of rival companies to transfer their patronage.

A third advantage arises from this. If a private firm discovers a new method of making or distributing its wares, it jealously guards the secret of the process from all its competitors. But when an improved method is discovered in the co-operative factories or stores, the knowledge is ungrudgingly distributed throughout the movement.

The social benefits of the co-operative movement are perhaps even more significant than its economic advantages. The most valuable feature of co-operation is that embodied in the term itself. The motto "each for all, and all for each" is no empty phrase. The members are associated in a body which is imbued with a stronger spirit of service and mutual help than is to be found in the ordinary capitalistic grouping. Though the co-operative societies have not as yet achieved this social unity to the degree one would like, such a spirit is more possible in co-operative than in capitalistic enterprise. It may be that some of the present co-operative societies, in their eagerness for industrial and trading expansion, have allowed this social obligation to take too subordinate a place in their scheme. For example, from the time of the Rochdale Pioneers it has been the general practice to devote  $2\frac{1}{2}$  per cent. of the surplus on trading to educational activities. Certain societies, however, have in recent years failed to devote the necessary funds to this purpose, and, in some instances, have appropriated for general expenses part of the funds that had been set aside for educational work. On the other hand, most of the societies continue to fulfil their educational and allied obligations. Lectures and classes

in hundreds of towns, the Co-operative College at Manchester, a couple of scholarships for Oxford—these are but a few of the educational facilities granted by the movement to its members. This invaluable department is certain to extend with the further growth of the movement.

Co-operation is also of service in providing useful experience in self-government. The growth of the movement to its present dimensions is excellent testimony to the constructive and directive ability of working class co-operators. The salaries of the officials are small compared with the remuneration of other firms' managers whose functions are no more skilled or responsible. It is a tribute to the co-operative directors, and to the spirit of the movement, that a relatively low, in many cases too low, remuneration exacts such a high degree of enthusiasm and efficiency.

The use of the co-operative store as a form of savings bank is also of value to the members, many of whom find this the only practicable means of putting a little aside for emergency or for particular purposes. Housewives appreciate the fact that although their domestic expenditure at the store is no higher than it would be elsewhere, a welcome abatement, representing a net saving, awaits them on dividend day. If the articles were sold at less than market price, the benefits would usually amount to a few coppers at a time. The average housewife prefers a lump sum to irregular small amounts that would probably be frittered away. Further, the usual insistence on cash payments is really in the interests of the customer, who receives a better and cheaper service. Credit facilities in poor districts are too often accompanied by extortionate charges.

The interest taken, and the large part played, by women

is a marked feature of the co-operative movement. From the beginning they have been admitted on equal terms with men, and in the meetings they have always had equal voting power. In this respect, the co-operative society has from its inception been more democratic than the trade union, and much more so than the State.

The most ardent supporters of co-operation cannot deny the presence of certain defects in the present co-operative system which call for more or less urgent remedy. Some of these are merely a matter of organisation and are sure to disappear with the further growth of the movement. Others are more deeply rooted, and efforts should be made to eradicate them before they imperil the success of the whole enterprise.

**Defects in  
the Present  
Co-operative  
System.**

A serious defect in the existing organisation is the overlapping of the areas of many retail societies. In some Durham mining villages there are branches of rival societies in the same street. Manchester and Salford recently had six societies catering for the same area.\* Similarly in the Midlands there are several well-equipped bakeries which cannot work to full capacity owing to the district being parcelled out among different societies. Amalgamations are gradually taking place, however, and it is expected that this drawback will eventually be remedied.

The suggestion has been made in some quarters that all the societies throughout the country should amalgamate and that a national organisation should supplant the existing arrangement. Many arguments could be adduced, in theory, to support this proposal. Ultimately, perhaps, amalgamation for entire districts, if not for the country as a whole, will be accomplished. But any attempt to bring about a national organisation at the present time is fore-

\* S. & B. Webb, *The Consumer's Co-operative Movement*, pp. 66-7.

doomed to failure. The recent agreement between the English and Scottish Wholesale Societies is not analogous to the proposed amalgamation of all the local stores. The retail societies vary considerably in prosperity and dividends, and, for the time being at any rate, the great societies of, say, Leeds and Plymouth would not join forces with the poorer societies, even in their own neighbourhood. While some societies pay dividends of 3s. and 4s. in the £, and others pay nothing at all, general amalgamation can hardly be expected. Local patriotism, too, has an important bearing on the question, and there is the fear that the enthusiasm of certain societies would be checked if too hasty action were taken. Where the presence, however, of two or more societies in the same district leads to overlapping and waste, the need for amalgamation is imperative.

Another defect is the existence of "co-operative deserts," which are of two kinds. Firstly, there are those *areas* which, so far, are not provided with co-operative stores, especially the thinly populated areas like Cornwall and parts of Wales. But it can be only a matter of time before the whole country will be covered by the co-operative system, for these geographical "deserts" are gradually dwindling. Secondly, there are those *classes* of people who have not, so far, been brought within the scope of the movement. While the selling prices of goods might be judiciously reduced (consistent with the conditions indicated above), so as to bring as many of the poor as possible into the movement, there would still be a wide fringe of the population too poor to afford even the reduced prices. Nor does the casual labourer figure prominently among the members of co-operative societies. The nature of his work is not, as a rule, conducive to thrift. Remedy in such cases is obviously outside the functions of the co-operative movement. At the other extreme are the well-to-do classes,

who are unlikely, for a long time to come, to purchase their requirements at the co-operative stores. There is, however, a large proportion of the working population, at present outside the movement, for whom co-operation might reasonably be expected to cater. Some clerical and professional workers stand aloof because of a misguided snobbishness. But the majority of this class are outside the movement simply because they are ignorant of its nature and activities, and of the advantages they could secure from membership. This "desert" has a high potential fertility, and is well worthy of cultivation by the co-operative organisers.

A few minor defects in the present co-operative system call for attention. There is no comprehensive arrangement for the transfer of a member's shares and rights from one district to another. A few societies in holiday resorts make slight concessions to other societies' members who are temporarily in their area. General and adequate extension of these facilities is desirable. Another drawback, the insufficient salaries paid to the officials, has already been touched upon. The common criticism of the co-operative movement, that its directors and managers are not, on the whole, as efficient as those in capitalist concerns, would largely disappear if the co-operators paid sufficient remuneration to attract the most efficient men. Even under present conditions, the co-operative movement is served by men whose market value as organisers is considerably above the salary they actually receive. A further criticism is in respect of the alleged favouritism in granting appointments within the movement. This practice, though it is of very limited extent, is to be deprecated, but it is only fair to point out that the nepotism in the co-operative movement is minute compared with that in the average private firm.

Lastly, the co-operative system is blamed for its bureaucracy. The central organisations are said to dominate unduly the methods and purposes of the smaller societies. But in so far as a sympathetic central authority directs and co-ordinates the smaller bodies, and so prevents duplication of functions and overlapping of areas, the regulation from above is beneficial. Some degree of "bureaucracy" is inevitable where the organisation and activities are on a vast scale. As well might one criticise the huge administrative and clerical departments of the railways or the banks or the international trusts as being bureaucratic. Nevertheless, the peculiar conditions of the co-operative movement, make too much control "from above" highly undesirable. The movement in its most prevalent form began with the consumers, and a large reason for its success has been the supervision and direction exercised "from below." Any loss of power on the part of the ordinary members, beyond that indispensable to economical conduct of the society, is liable to prejudice the future of the movement. The co-operative society has always differed from the ordinary joint-stock company in that the interests of the customers have necessarily been identical with those of the owners and directors. The separation of these interests would be contrary to the essential co-operative principles.

The tremendous expansion of the co-operative movement during the last half century, constantly passing the limits that were from time to time predicted by economists and others, warns one against defining too dogmatically the boundaries of co-operative enterprise. The movement is still growing rapidly, and fresh ventures are ever being undertaken, encroaching on what hitherto has been regarded as the sacred preserve of capitalist organisation. There are,

Limits to  
Co-operative  
Enterprise.

however, a few advantages peculiar to certain branches of capitalist enterprise that for some time must serve as a check on a too rapid extension of co-operation. Such advantages arise not so much from those defects of the co-operative movement noted in the previous paragraphs (for these are shared often to an even greater degree by private firms) as from the nature of the industrial and commercial system which in many important respects favours private more than co-operative enterprise.

Risk-taking plays a large part in modern production, and the private firm and joint stock company are in a better position to undertake the risks of enterprise than the co-operative concern. The average member of the co-operative society is much poorer than the average shareholder in the joint-stock company. Consequently he is less willing, as a rule, to permit his small capital to be used in speculative undertakings. Further, and more important, the fact that the co-operative societies pay a fixed interest on capital and divide the surplus proper according to purchases is an obstacle to the taking of undue risks. Naturally the co-operator would object to hazarding his small capital when he would not share directly in any extra profits. The co-operative societies must play for safety to a greater extent than the joint stock companies. It would be highly undesirable for the co-operative societies to alter their principle of paying a fixed rate of interest on share holdings, which is one of the most valuable features of the whole movement; yet this distinctive principle, which puts the societies on a different plane from the joint-stock companies, at the same time places them at a disadvantage in certain branches of economic activity. The ability of the members to withdraw their shares at any time is apt to throw the co-operative society into difficulties in periods of bad trade—as was proved in many instances

during the post-war depression. Also, the ordinary capitalist company can make use of the risk-distributing machinery of deferred, ordinary and preferred shares, whereas the co-operative society has necessarily to distribute any risk it undertakes equally among all the shareholders.

There are some long-established industries and services in which the co-operative societies find it comparatively difficult to secure a footing. The obstacle is still greater when the business is in the hands of a monopoly. The railway and transport services, for example, have been built up in this country by private enterprise, which has had a long start over the co-operators. Indeed, State ownership of the railways and similar services is a more likely proposition than co-operative ventures in this direction. A further limit is imposed in the case of commodities produced for the well-to-do and many of the middle-classes who are unlikely to enter the ranks of co-operators. A large proportion of the total national production is of this character. Again, the bulk of the machinery and raw materials used in the factories and shipyards must, for a long time, come from non-co-operative sources. And in the sphere of foreign trade, the co-operative movement is necessarily limited, at least while conducted on present lines. International trade is almost entirely wholesale, the merchant rarely having anything to do with the ultimate consumer, who may be thousands of miles away. True co-operation, however, assumes personal contact with the consumer, who is not merely a customer but a part-owner. Eventually the workers of the world may be sufficiently organised as to permit of an international co-operative movement. But for the immediate future, foreign trade, except where it is a matter of securing materials for the C.W.S. factories, is likely to remain in private hands.

All this must not be taken to impose permanent limitations on co-operative function. Certain of the above obstacles are sure to weaken with the changes in social structure that are now visibly taking place. When the Rochdale Pioneers started their little store, a national wholesale organisation was not imagined ; and when the C.W.S. was founded, the most sanguine of its supporters could not have conceived to what magnitude and power it would grow. Likewise at the present time it would be folly to lay down exact limits to the co-operative achievements of the future.

The co-operative movement employs nearly 200,000 workers, about three-quarters of whom are in the retail societies, and one-quarter in the wholesale societies. These employees are not in the same position as those in producers' societies. They receive wages like workpeople in the ordinary concerns, and have very little more share in the management, if any at all. Until recently the workers in the co-operative shops and factories had practically no specific representation on the boards directing the policy of the society, and were disfranchised from voting at members' meetings. It was feared that they might use this power to their own advantage. Whereas only a small percentage of the ordinary members turn up, as a rule, for the business meeting, a much bigger proportion of those employed (who are naturally more interested in the conduct of the society) are likely to attend. The fear that the consumers' interests might be subordinated to those of the employees can therefore be understood. A certain degree of workers' representation is very desirable, however, and during the last few years some progress in this respect has been made. In many cases, the employees have a limited number of representatives on the governing boards, but the

The  
Co-operative  
Employee.

proportion is small enough to ensure the predominance of the consumers' interests. It would be strange if, at a time when joint industrial councils were being set up in capitalist undertakings, the co-operative societies did not grant a measure of representation to their employees.

Generally speaking, the wages and working conditions of the co-operative employee are better than those prevailing in ordinary concerns. Unfortunately several disputes have arisen, for various reasons, and the workers more than once have had recourse to the strike weapon. Over half of the co-operative employees are in the National Union of Distributive and Allied workers, and most of the remainder are in other unions. Following a dispute in 1923, fresh machinery was devised for the maintenance of industrial peace within the co-operative movement. It was definitely asserted that "the Co-operative and Trade Union movements should be considered as two departments of working-class activity created for the purpose of improving the conditions of life and labour for the workers." The scheme provides for local joint councils, equally representative of the employees and the societies. Disputes are to be submitted to the local joint councils first, and, in the event of disagreement, to area joint councils, of which there are to be eight in the country. Should there still be no agreement, the matter is to be referred to national joint councils, which also have the power to deal with questions that effect more than one area.

This scheme, however, failed to prevent a serious dispute in the North of England early in 1925, which demonstrated the urgent need of an efficient conciliation machinery, in the interests, not only of the individual employees and members, but of the movement as a whole. Strikes within the co-operative ranks are especially deplorable as they tend to magnify the dissension among the

working classes themselves and give a bad impression to the outside world.

The co-operative society is not so pronounced a class organisation as the trade union, and cannot by its nature be so aggressive. It is more concerned with a worker's interests as a consumer than as a producer. From the material standpoint it cannot hope to raise the real income and status of the member by any appreciable degree. The trade union, on the other hand, is usually regarded by the workers as serving a more valuable purpose. It not merely helps to raise wages and improve the working conditions, but is intended by many of its adherents to play an important rôle in supplanting the capitalist system ; for this end it is claimed to be a more potent force than the co-operative society can ever hope to be.

Only during the last decade or so has the co-operative movement frankly thrown off its guise of neutrality. Different from the co-operative organisations on the Continent, the British societies until recently took no active part in the political and industrial labour movement. It was claimed to be no function of the movement to participate in disputes, but probably the main reason was the fear that a large proportion of the co-operators would cancel their membership if the societies played a direct part in the agitation for the improvement of labour conditions.

But this independent attitude was already weakening before the war. In 1913 the C.W.S. gave valuable assistance in the way of food supplies to the dockers on strike in Dublin. Similar help was given during the national railway strike of 1919. Another link between the two movements was provided by the C.W.S. Bank, which now manages the greater part of trade union accounts. There is also an exchange of fraternal delegates at the

annual Congresses. But the most significant step taken during the last few years was the entry of the movement into politics, and the establishment of the Co-operative Party. The agitation over the liability to the income tax was a large factor in bringing about this action. The Co-operative Party has a working agreement with the Labour Party, though so far there has been no actual amalgamation.

The programme of the Co-operative Party lays down ambitious claims for international co-operation and the abolition of secret diplomacy ; it advocates a capital levy and an increased income-tax on large incomes ; it aims at the establishment of national credit banks and supports the nationalisation of the land ; and it makes sundry recommendations for the prevention and relief of unemployment, the control of monopolies and trusts, the reform of the electoral system, etc. The benevolent neutrality of the co-operative societies in the labour movement is therefore a thing of the past. All the signs point to a growing unity of purpose and action on the part of the two main organisations. The twentieth century has witnessed considerable progress towards the stage when every trade unionist will be a co-operator, and every co-operator a trade unionist.

## CHAPTER X.

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### THE CAUSES OF UNEMPLOYMENT.

The study of unemployment is very complex for it involves inquiry into the workings of the whole economic system. Suggested remedies for the evil are legion, but the more one investigates the causes of unemployment, the more one doubts the chances of success of any single panacea working alone. Some unemployment is, as it were, a surface complaint, and can be treated with a simple remedy. But most unemployment has its roots much deeper in the economic system, and treatment must necessarily be more thorough and fundamental. In this chapter the nature, causes and effects of unemployment are considered ; in the later chapters will be examined the steps that have been and that might be taken to cope with the problem.

For convenience, the causes of unemployment may be classified under the several headings, (1) economic, (2) personal, and (3) war. But it must be emphasised at the outset that these categories are by no means exclusive of each other, that influences so act and react that it is frequently difficult to say which is cause and which is effect.

The first set of causes, the economic, comprises some of the principal factors in the problem, and for purposes of analysis it is necessary to study them in two sub-sections, (a) primary causes of unemployment, affecting the whole of industry and (b) less fundamental causes of unemployment, affecting only particular trades.

In the past, production was usually for a known market.

**Primary  
Economic  
Causes :**  
(a) **Lack of  
Co-ordination  
among  
Producers.**

The order was given first, then the producer set to work to fulfil the order. Conditions have changed, and the growing practice is to produce first and find a market afterwards.

In the aggregate, the demand may be roughly estimated, and, provided that the total production of a given article is not in excess of

the effective requirements (though the extent of effective supply and demand will, of course, be largely determined by the price at which the article in question sells), there is no objection to production in advance of demand. Indeed, the practice is generally advantageous, in that it permits of continuity in production, with its attendant economies. Further, it makes employment more regular ; it is better to employ labour, during what would otherwise be slack periods, in making goods " for stock," than to dismiss a number when trade is temporarily quiescent, and then feverishly take on labour and indulge in overtime, when the market becomes active again.

But, despite the merits of competitive enterprise, there is a certain danger in the system, namely, ignorance on the part of one producer of the extent of another producer's output. Competitive producers, in order to secure as large a share of the demand as possible for themselves, may turn out between them a greater quantity of goods than can profitably be sold in the market.\* The result may be temporary curtailment if not actual cessation of output

\* In a sense, " over-production " of an article cannot take place if some wants for that article remain unsatisfied. *General* over-production, *i.e.* the condition when every want has been met, is inconceivable. But we are here, for simplicity, interpreting the term in the customary manner. A commodity is said to be over-produced if the price brought about by the relatively large supply is too low to cover the normal expenses of production.

and a corresponding dismissal of workers. The firms mark time until trade improves again, and in the meantime the percentage of the unemployed remains very high. Thus, the lack of co-ordination among producers may be cited as a prominent cause of unemployment.

Another instance of imperfect co-operation is afforded when one set of producers, engaged in turning out a part of a certain article, do not keep proper pace with those engaged on the other parts. They may "run ahead" and then have to "go slow" until they are caught up. If this occurs in different departments of a single firm, the management is directly to blame. But sometimes it happens among different sections of an entire industry, and is the fault of nobody in particular. An invention, for instance, may speed up the production of an article which is but a component part in the making of something else. Until there is another invention causing a correspondingly increased output of the other parts involved, there will be dislocation. Thus when the spinning jenny was introduced, yarn was turned out at a faster rate than that at which the hand-weavers could convert it into cloth, and consequently there was periodical unemployment among the spinners while the weavers caught them up. When the power loom was invented, the situation improved, for now the weaver could use up all the yarn that the spinners offered them.

Statistics of unemployment show that in the unskilled trades there seems to be a permanent over-supply of casual labour, while even in the skilled trades the percentage of unemployed never drops to zero. There appears to be in all trades an "irreducible minimum" of unemployment, due, not to the chronic idleness of a few, but to the loss of time by the

(b) The  
Labour  
Reserve and  
Under-  
employment.

many.\* This "labour reserve" consists of men who are liable to be required occasionally but not wanted permanently, and its extent depends on the number of separate employers, the nature and regularity of the business, the mobility of labour, etc. The "stagnant pools" of labour mean permanent under-employment, for those directly concerned, while it tends to depress conditions of employment among those who are fortunate enough to be in work.

Casual employment is notorious at the water-side, but it is not uncommon in many other directions. The building and transport trades, for example, suffer largely from this disease, while a labour reserve of one or two per cent. is found in the most skilled and organised occupations. The clamour for employment is more noticeable at the dock gates than elsewhere, and consequently evokes more sympathy. Much of the work is semi-skilled, and there seems to be a constant gravitation to the docks of men who, for one reason or other, have lost their position in other occupations. The demand for such labour is never as great as the supply, and the workers come to regard an average of three or four days work per week as the best they can expect. It was estimated before the war that over 30,000 men were occasionally employed at the Liverpool docks alone, though rarely more than 20,000 were required at a time even on the busiest days. The position in London was even worse. In recent years there has been a certain improvement in the decasualising of dock labour, but the situation is still far from satisfactory.

Under-employment does not necessarily mean distress. The wages for the time actually worked may be sufficient to provide subsistence for the time spent in idleness; or

\* For a thorough analysis of this question, see Beveridge, *Unemployment*, Ch. V.

assistance may be received from insurance and trade union funds ; or, as in the case of the cotton trade, the loss in time may be distributed over all the workers, short-time taking the place of dismissals. But where under-employment is chronic, as at the water-side, these ameliorative conditions are not present to any marked degree, and much poverty results. Both the Majority and the Minority of the Poor Law Commission (1909) were agreed that under-employment due to the reserve of labour was one of the greatest causes of pauperism and distress.

It has been observed that periods of prosperity and depression follow each other at fairly regular intervals, and this has given rise to the belief that there is something inherent in the economic system which causes trade to move in cycles. The estimates of the length of a complete period vary, but 7 or 8 years may roughly be taken as the term. The table on p. 231, showing the average unemployment for each year since 1850, demonstrates the rhythmical nature of trade activities. It is beyond the scope of this book to enter into the nature and causes of cyclical fluctuations,\* but a general consideration is necessary as the subject is so fundamentally bound up with unemployment. The principal explanations that have been offered may be summarised.

(i) *The Excess-credit and Over-production Theory.* A short survey of the trade cycle (so far as it can be reduced to a type) will serve to illustrate the over-production theory. Suppose, at the commencement, there is a genuine extension of trade, harvests are good, profits and wages high, and the percentage of unemployment low. Good times

\* For a concise account of this subject, see Lavington, *The Trade Cycle*. For fuller analysis, see Mitchell, *Business Cycles and Unemployment*.

# UNEMPLOYED PERCENTAGES, 1850-1923.

ANNUAL AVERAGES BASED ON RETURNS FROM TRADE UNIONS.

Year.	Per cent.	Year.	Per cent.	Year.	Per cent.	Year.	Per cent.	Year.	Per cent.	Year.	Per cent.	Year.	Per cent.
1850	4.0	1860	1.9	1870	3.9	1880	5.5	1890	2.1	1900	2.5	1910	4.7
1851	3.9	1861	5.2	1871	1.6	1881	3.5	1891	3.5	1901	3.3	1911	3.0
1852	6.0	1862	8.4	1872	0.9	1882	2.3	1892	6.3	1902	4.0	1912	3.2
1853	1.7	1863	6.0	1873	1.2	1883	2.6	1893	7.5	1903	4.7	1913	2.1
1854	2.9	1864	2.7	1874	1.7	1884	8.1	1894	6.9	1904	6.0	1914	3.3
1855	5.4	1865	2.1	1875	2.4	1885	9.3	1895	5.8	1905	5.0	1915	1.1
1856	4.7	1866	3.3	1876	3.7	1886	10.2	1896	3.3	1906	3.6	1916	0.4
1857	6.0	1867	7.4	1877	4.7	1887	7.6	1897	3.3	1907	3.7	1917	0.7
1858	11.9	1868	7.9	1878	6.8	1888	4.9	1898	2.8	1908	7.8	1918	0.8
1859	3.8	1869	6.7	1879	11.4	1889	2.1	1899	2.0	1909	7.7	1919	2.4
												1920	2.4
												1921	15.3
												1922	15.4
												1923	11.5

like these witness the rapid accumulation of capital, and the consequent demand for securities causes their price to rise. An incentive is offered to promote new companies and issue fresh securities to would-be investors. Speculation is encouraged. For the furtherance of new concerns money is increasingly needed, and credit facilities are widely given. Credit documents having to all intents and purposes the same power of exchange as money in the narrow sense of the term, there is now a greater amount of purchasing medium in circulation. With the increase in the effective demand for goods, prices rise, and the increase is further emphasised by the action of consumers who, expecting prices to go on rising, purchase in advance of their normal requirements. Rising prices are a cause of still further productive activity, for the margin of profit between costs and selling prices increases during the period between the initiation of production and the selling of the article. The extra profits encourage firms to extend their output, while new firms are prompted to enter the field. The lack of co-ordination mentioned above now becomes dangerous, and in all probability production is carried to excess. Over-supply naturally checks the rise in prices, and sooner or later the downward trend begins.

The activities belonging to a period of good trade are now reversed. Firms which heavily committed themselves in the expectation of a further rise of prices find themselves in difficulties. The optimism of the first period is supplanted by a pessimism which, like neuralgia, quickly spreads. There is a frantic appeal for credit to the banks, which, however, are not in a position to extend such facilities. More likely, the banks, in order to secure their own position, raise their rate and call in existing credits, and so make the position even worse. There is a rush to sell in order to get ready cash, and this again forces prices down.

Further, in view of the falling prices, consumers delay purchasing beyond their daily needs, and so intensify the situation. Firms now cut down their production, and discharge or put on short-time many of the workers. The reduced spending-power of these workers is an additional reason for the falling-off in demand and the further lowering of prices. And so the depression goes on until there is literally an under-production of goods. Supply becomes short, prices harden, trade begins to revive, and the cycle of trade is completed.

(ii) *The Psychological Theory.* Exponents of the psychological theory do not dispute the influence of monetary and banking arrangements on the state of trade and therefore on employment. They lay greater stress, however, on the errors of optimism and pessimism among business men than do the advocates of the ordinary over-production theory. In times of prosperity people are prone, quite apart from the likelihood of a further rise in prices, to buy extensively, and so stimulate further production. In bad times they are apt to stint their purchases, and so cause production to fall off. Even if prices were stabilised, it is contended, there would still be a tendency to a rhythmical recurrence of these errors of optimism and pessimism, manifesting themselves in cyclical fluctuations.

“It may be—and indeed it certainly is—the fact that the monetary and banking arrangements current at the present time cause errors of optimism and errors of pessimism to be larger than they would be in a regime of stabilised general prices : because, when general prices are rising, the ordinary man, while seeing clearly the benefit to himself that will result from the rise in his own things, does not attend so closely to the harm to himself that will result from the rise in other things ; and similarly when general prices are falling. But to grant this is not to grant that

errors of optimism and of pessimism are merely monetary phenomena. In a world of pure barter they would still exist: *A* and *B* each making at the same time now an exaggerated, now an inadequate estimate of the other's prospective real demand for his stuff." \*

This theory is closely bound up with the over-production theory outlined above. By itself the psychological theory would seem inadequate; it fails in particular to explain the "turn" of events from good times to bad, and *vice versa*. But the element of truth in it cannot be overlooked.

(iii) *Climatic Theories*. Variations in climatic conditions are found to be fairly regular, and some writers have attributed to this factor the cyclical fluctuation in industry. Half-a-century ago Jevons formulated his famous "sun spot" theory. He contended that regular solar movements affected the amount of sunlight and heat, and thus influenced the state of harvests. Agriculture being the most important industry, its fluctuations would soon react on other less basic industries, so affecting employment. This particular theory has long been abandoned, but the regularity of climatic changes is so evident, and the periods in the climatic and the trade cycle seem to be so similar, that the existence of some direct relation between them cannot be lightly dismissed.

Sir William Beveridge, in an inquiry into the relation between British exports (a good though not infallible indication of general trade) and barometric conditions suggested "that the apparent periodicity of the figures is a true one, and arises from some physical cause or combination of causes, whether terrestrial or super-terrestrial, having a regular fluctuation in a period of between fifteen and sixteen years, or some factor thereof, and causing a

\* A.C. Pigou, *Memorandum on Correctives of the Trade Cycle*, in *Is Unemployment Inevitable?* (ed. by Astor, Bowley, etc. 1924), p. 98.

corresponding fluctuation in the productivity of the earth.”\* Later he concluded that his “suggestions . . . if proved, establish beyond question the meteorological factor in trade fluctuation, in agreement with the principles, though not the details, of what has been written on the subject by Professor W. S. Jevons . . . It is necessary to add that this would establish climatic variations as one cause, not as the sole or perhaps even the main cause, of cyclical fluctuation of industry. The state of the export trade affects employment and wages, but does not dominate them. The times of greatest hardship to the population as a whole generally fall near the times of diminished exports, but do not always do so. There are some causes of fluctuation—financial, industrial and social—clearly independent of the climatic and the export trade.”

(iv) *The Over-savings or Under-consumption Theory.* While in some ways it resembles the over-production theory, the under-consumption theory differs in that it places emphasis on the failure of consumption to keep up with production. Mr. J. A. Hobson has expounded this theory most fully,† and a statement of it may be best given in his own words. It will be seen that he attaches little importance to misdirected production and to climatic fluctuations as the real cause of cyclical fluctuations.

“The existence of a normal tendency for . . . production to outrun . . . consumption . . . *i.e.* the existence of a limited market, is attested by common experience . . . This normal failure of con-

\* *Economic Journal*, March 1920. See also articles by the same author, *ibid.*, June 1920 and December 1921. A further factor influencing conditions of trade is suggested, *viz.*, output of gold. But the effects of this are fairly similar to those described above in connection with extended credit, and so do not call for separate consideration.

† See his *Economics of Unemployment*, 1923, for his latest exposition of this theory.

sumption to keep pace with actual and potential production is manifestly responsible for the periodic gluts, stoppages, under-production and unemployment, which precede and constitute cyclical depressions. Misapplication of productive power . . . though responsible for much waste, will be a fairly constant factor in the complex world economy, and cannot be regarded as a chief cause of the accumulating general gluts which usher in cyclical depressions. Nor is there any reason to suppose that meteorological fluctuations affecting world-harvests are competent to account for the size and the nature of the phenomena of trade depressions. There is only one sort of maladjustment of economic forces adequate in nature and magnitude to explain the actual phenomena—viz., a normal tendency to apply to the production of capital-goods a proportion of the aggregate productive power that exceeds the proportion needed, in accordance with existing acts of industry, to supply the consumption-goods which are purchased and consumed. In other words, if there exists a normal tendency to try to save and apply to capital purposes an excessive proportion of the general income, we have a valid explanation of the actual phenomena of fluctuations and depressions.”\*

The writer goes on to show that over-saving springs from the wide disparity between the rich and poor, and from “the large elements of unearned and unneeded income which falls to the former class.” The economic checks provided by a fall in interest and in general prices are considered inadequate. The conclusion is therefore reached “that there can be no real remedy except a removal of the surplus elements in large incomes which brought about the disproportion between saving and spending.” This theory resolves itself into the belief that there is a proper ratio between spending and saving at any time, this ratio being such that the amount saved will be just sufficient to satisfy the normal demand for “final” commodities. Any excess of this amount will cause production and the market to become congested, and, pending the time when the glut will

\* *Economics of Unemployment*, pp. 146-7.

be worked off, there will be excess of all the factors of production, thus involving unemployment.

The under-consumption theory has been criticised by certain economists who, while recognising the inequity of the distribution of wealth, do not accept this as the prime cause of cyclical fluctuations. They maintain that the trade cycle would still be found in conditions where the wealth was better distributed. Prof. Mitchell suggests that if the main reasons for fluctuations were the lagging of consumers' demand behind the supply of consumers' goods, the prices of such goods would be expected to fall before the prices of raw materials and producers' goods—which is not borne out by experience. The under-consumption theory is valuable, however, in stressing the importance of demand and the manner in which unequal distribution causes an improper allocation of the social income among consumption goods and capital goods.

As indicated at the beginning of this discussion, it has been possible in these pages to make only bare reference to the more important attempts at explaining cyclical fluctuations, with a view to giving some idea of the complexity of the problem.\* Probably there is no single cause at all, and any schemes that may ultimately be adopted to

\* The following extract from W. C. Mitchell's *Business Cycles*, p. 19, illustrates the variety of thought on the subject. "May ascribes crises to the disproportion between the increase in wages and productivity, Aftalion to the diminishing marginal utility of an increasing supply of commodities, Bouniatian to over-capitalisation, Spiethoff to over-production of industrial equipment and under-production of complementary goods, Hull to high costs of construction, Lescure to declining prospects of profits and current capitalisation, Sombart to the unlike rhythm of production in the organic and inorganic realms, Carver to the dissimilar price fluctuations of producers' and consumers' goods, Fisher to the slowness with which interest rates are adjusted to changes in the price level."

correct the trade cycle will not be entirely successful unless they operate in more than one direction. But ignorance of the true cause of the trade cycle is no reason for lack of action so far as unemployment is concerned. Though we do not know *why* the trade cycle occurs, we know that it *will* occur, and can therefore adopt certain measures to minimise the evil effects on the worker's employment. Such plans will be considered in the next chapter.

Some authorities rank deficiency of industrial training as a prominent cause of unemployment. For example, the Minority Report of the Poor Law Commission states, "we regard this perpetual recruitment of the unemployable by tens of thousands of boys, who, through neglect to provide them with suitable industrial training, may almost be said to graduate into unemployment as a matter of course, as perhaps the gravest of all the grave facts that the Commission has laid bare."\* In another place it submits that "the mass of unemployment is continually being recruited by a stream of young men from industries which rely upon unskilled boy labour and turn it adrift at manhood without any general or special industrial qualifications and . . . it will never be diminished until this stream is arrested."†

There is a close relationship between "blind-alley" employment of juveniles and subsequent unemployment. With the subdivision and simplification of processes there is a growing demand for boy labour in many parts of industry. In the tending of semi-automatic machinery and in the delivering of purchases, the boy can earn fairly good wages soon after leaving school. For reasons of poverty, and, to a less extent, of ignorance, parents send their children into occupations in which high wages are being offered but

\* See Dearle, *Industrial Training*, p. 416.

† *Minority Report*, Pt. II., p. 224.

where little or no opportunity of development and advancement is offered. In consequence, when the boy reaches manhood the wage is insufficient for adult requirements, yet he is not able through lack of training to undertake more remunerative employment elsewhere. "No use at five-and-twenty is of more validity than too old at forty."\*

Other authorities, however, while admitting the seriousness of deficient training, would not place it in the first rank of causes of unemployment. Thus, Sir William Beveridge contends that, while improvement of industrial training like every other increase of efficiency must raise the general level of prosperity, "its direct value as a remedy for unemployment is somewhat limited—it cannot touch the causes of industrial fluctuations or in practice prevent casual employment."

In recent years a new type of industrial organisation has developed, which, while retaining many of the earlier characteristics, has attempted—  
 (e) **The Trust and Unemployment.** very successfully in many instances—to overcome the lack of co-ordination among producers. This organisation may take several forms, ranging from the highly organised Trust to a simple "honourable understanding," but the result is the same, viz., the reduction or disappearance of effective competition and, with the knowledge of the requirements of a defined market, the elimination of excessive production.

The immediate effect of the formation of a trust may be to throw many workers out of employment. Possibly in the days of unlimited competition and unrestrained enterprise, too many firms had entered the field, or (what amounts to the same thing) existing firms had extended

\* Reginald Bray in Memorandum, *Report on the Poor Laws*, Appendix, vol. ix., pp. 315-29.

their plant in excess of what the market justified. This meant either over-production or working a system of short time. On the formation of the trust, a number of the concerns, especially the less efficient ones, would probably be closed down in order that the rest might work full time. Against the unemployment thus caused should be offset the better employment offered in the concerns in which regular now takes the place of intermittent production. But, assuming that the trust does not unduly restrict the output, the effects on employment in the long run are all to the good. A properly conducted trust or other monopolist organisation does not, so far as lies in its power, over-produce. Employment, therefore, tends to be more regular than in industries in which firms are still in competition and output is not co-ordinated.

Unfortunately the assumption that the trust will not unduly restrict the output is seldom borne out in practice. The stricture often made against the present system, that "production is for profit and not for service," is peculiarly true when applied to the trust. The monopolist may find it more profitable to sell a smaller amount at a higher price per unit. Increase in profit is here quite compatible with decrease in service to the community. To secure his "maximum net revenue," output is contracted and men are dismissed. The effects of "trustification" on employment are thus seen to be very mixed. In so far as employment is made more regular there is a distinct advantage. In so far as men are discharged owing to the greater economies of organisation, the result may be beneficial in the long run, despite the hardships caused at the time. But to the extent that the trust finds it more profitable to restrict the output, the result is harmful both to the workers directly affected and to the community at large.

It is frequently urged, and with some justice, that while the distribution of the social product is as  
 (f) Unequal Distribution. unequal as it now is, unemployment will never be eliminated. One argument on these lines, the over-savings or under-consumption theory, has been previously mentioned. The ill-effects of an inequitable distribution of income can be demonstrated in other ways. Income spent on luxuries does not render as much social utility as that spent on necessities. Firstly, a given amount of money means, on the average, a greater degree of satisfaction to a poor man than to a rich man. Secondly, the consumption of necessities is more cumulative and reproductive in its effects than the consumption of luxuries. From a moral point of view, it might be argued that though the consumption of luxuries is desirable, it is not justified so long as there are necessary wants going unsatisfied. From the strictly economic point of view, it can be shown that there is a definite loss in productive power and efficiency if an undue proportion of the national income is expended on articles of luxury. This necessarily reacts on the demand for labour.

One sometimes encounters the argument, however, that the demand for luxuries provides work for many people, and that a curtailment of large incomes by taxation or other means will reduce the demand for labour in proportion. In a sense this is true. A reduction in large incomes might reduce the employment in (say) the perfumery trade. Even more noticeably, it might reduce the number of footmen or ladies' maids. But the question at issue is a much broader one. In so far as these people have, while employed, contributed no useful service to the community as a whole, their being thrown out of employment would not materially affect the social welfare. They were not rendering any productive service before (*i.e.* from the com-

munity's standpoint), and their discharge therefore does not reduce the national prosperity, regarded as a whole. Suppose these people could be diverted to occupations of a more productive character. With the same total effort, the output of the community would now be increased. The man who hitherto was a consumer but not a producer now becomes a consumer *and* a producer. The real wealth of the community increases and so, up to a point, does the spending power. Increased spending power means increased demand for labour. Thus it is conceivable that the unemployment caused by contracting the output of luxuries is ultimately more than balanced by the extra employment created in other quarters.

Needless to add, this reasoning applies even more strongly in the case of a section of the community which consumes wealth but makes no attempt of any kind to render a service. A better distribution would compel those people who at present contribute nothing at all to the social product to seek more useful occupations. Here again, the total wealth produced would be increased, and with it the beneficial effects on employment described above.\*

So far only the economic causes of unemployment affecting the whole of industry have been considered. But it is found that even in the most prosperous times there is a certain amount of unemployment in particular trades that cannot be attributed to the primary economic causes considered above. Inquiry must be made, therefore, into those reasons for unemployment which, though not of general application, have serious consequences in individual trades.

**Economic  
Causes  
affecting  
Particular  
Trades.  
(a) Seasonal  
Demand.**

\* It might be argued in opposition to this view that the entry of the non-workers into industry would cause unemployment among those already working. But see below, pp. 251-2, *note*.

Many trades are subject to seasonal fluctuations, climatic conditions here playing a large part. It will be observed from the following extract, taken from the Minority Report of the Poor Law Commission, Part II., that the different trades have their particular periods of depression, these periods being spread throughout the year.

“Thus, January is the busiest of all months at the docks of London and most other ports, and is one of the busiest for coal miners ; February, in paper-making ; March, in steel-smelting and textile manufactures ; April, in brush-making and the furniture trades ; May, in engineering and ship-building, coach-making, hat-making, and leather work ; May, June, and July, in all the ramifications of the clothing trades, as well as among mill-sawyers ; July and August, for the railway service and all occupations in holiday resorts, as well as for carpenters and coopers ; August and September, for all forms of agricultural harvesting ; September, for plumbers and iron miners ; October, in iron and steel works ; November, in printing and bookbinding, in the tobacco trade, the tinplate manufacture, and the metal trades generally ; whilst in December coal mining, the very extensive theatrical industry, the post office service, and the gas and electricity works are all at their greatest volume of employment. On the other hand, January shows iron-mining and the furnishing trades to be at their slackest ; in February (contrary to popular belief) the plumbers have most unemployment of any time of the year ; in March and April, the coopers ; in May and June, the London dock labourers and the coal-miners ; in July, the iron and steel and tin-plate workers ; in August, the paper-makers, printers, bookbinders, and tobacco workers ; in September, the textile operatives and various metal workers ; in October, all the clothing trades are at their slackest ; in November, shipbuilding is, on the average, at its minimum ; whilst December is the worst month for carpenters and engineers, mill-sawyers, and coach-builders, leather workers, and brush-makers.”

Whereas the demand for labour in the industries just enumerated is seasonal and regular, the demand in certain other occupations is spasmodic and irregular. The problem of the dock labourer, whose employment is largely dependent on

(b) Irregular Demand.

the tides and the weather, and on conditions of trade in different parts of the world, has already been mentioned. Fashion, too, plays an appreciable part in affecting the regularity of employment. Changes in styles of clothing, for instance, necessarily react on conditions of employment in the trades affected. Even the most experienced fabric or clothing manufacturer cannot be sure that his calculations will not be upset by the vagaries of fashion; and extra demand for a particular article or service which comes into popular favour may be accompanied by a reduced demand in other directions. Thus if felt hats become fashionable in summer, there is a corresponding falling-off in the demand for straw hats. Again, the discovery of a substitute, such as electric light for gas light, or the motor car for the horse coach, may cause unemployment during the period of change.

The introduction of labour-saving machinery is a frequent cause of unemployment in particular trades, (c) **Inventions.** though in the long run it is usually to the general advantage. The effects may be very briefly outlined. Machinery cheapens production and as a rule causes a reduction in price. The extent of the reduction depends on the state of competition and on the elasticity of demand. If there is a larger demand, the amount produced will be increased, thus absorbing some of the workers displaced. In certain instances, however, the demand is not sufficient to retain all the workers originally employed. Agricultural machinery is permanently reducing the number of labourers. Similarly even in the textile industry :

“ The introduction of spinning and weaving machinery into Lancashire and Yorkshire afforded a considerable increase of employment, and a number of successive inventions and improvements during the second and third

quarters of the last century had a similar result, but later increments of machinery have not been attended by similar results ; on the contrary, there has been a decline in the number of persons employed in some of the staple textile processes. The introduction of type-setting machines into printing works has been followed by a large increase in employment ; the introduction of clicking machinery into the shoe trade has been followed by a net reduction of employment.”\*

But in the making of the machinery and the building of new plant, there will be a certain derived demand for additional labour. If the demand for the machines and machine-products, however, is not sufficient to absorb all the men engaged at first, there is still an outlet for the unemployed labour, for the reduction in the price of the articles leaves the consumer with the surplus which can be devoted to the purchase of other commodities. Employment, therefore, may be stimulated in one occupation as a result of improvement in technique in another.

The “ long run ” argument, however, offers little satisfaction to one who suffers in the “ short run.” It is no relief to a man thrown out of employment by the introduction of a labour-saving device to be informed that somebody else either now or in the future will be the gainer in greater degree than the present loss.

A little consolation is sometimes afforded by the “ time lag ” argument, which maintains that machinery is rarely introduced into all factories as soon as it is invented, and that displacement is therefore gradual. Thus, it is pointed out that hand looms were still very common in Bradford half-a-century after the discovery of the power loom, and that all the hand-weavers were not simultaneously thrown on

\* Hobson, *The Industrial System*, p. 291.

the labour market.\* “New machines and new processes are seldom introduced everywhere simultaneously. They come gradually and experimentally. Even where the substitution of the new process for the old is immediate, the existing workmen or some of them have naturally the first chance of learning the new one.”†

But with the rapid development of industry and the keen competition in the last few decades, the “time-lag” is getting shorter, and it is becoming increasingly necessary for an employer to introduce new machinery as soon as possible or be beaten by more enterprising competitors. A well-known entrepreneur was reported recently to have scrapped machinery to the value of hundreds of thousands of pounds in order to introduce more up-to-date plant; the discarded machines were themselves quite new, having been in use only a few weeks. There is no doubt that modern conditions make a “time-lag” very uneconomical, and that little dependence can now be placed upon it for alleviating the effects of machinery on employment.

Compared with the other causes, strikes and lock-outs are not responsible for very much unemployment, though in particular instances the effects may be serious. Disputes in one trade soon react on conditions in another, and the official statistics of “hours lost” should strictly be supplemented by the amount of lost time in the dependent trades. Strikes and lock-outs in basic industries like mining, transport and engineering, cause more immediate unemployment in allied trades than disputes in such occupations as teaching, catering, etc. But many disputes are followed by extra

(d) **Industrial Disputes.**

\* Nevertheless, there was considerable distress among the displaced hand-weavers, and the fact that it might have been worse is only slightly comforting.

† Beveridge, *Unemployment*, p. 114.

activity to make up for the lost time, and the ill-effects are thereby reduced. In any case, however, the percentage of unemployment attributable directly or indirectly to industrial disputes is very small.

The personal causes of unemployment, *i.e.*, those inherent in the unemployed worker himself, are not as important as the deeper economic causes outlined above. It is not easy, however, to say which factors are strictly personal, and which factors are themselves the consequences of the economic and social system. In the discussion on the causes that may be roughly characterised as "personal," it will be noted that some are more inherent than others in the individual.

Deficiency of mind or body is an obvious source of some unemployment. Deformity, weak mentality, accidents, etc., reduce a man's chances of employment, though with the development of semi-automatic machinery suitable employment can be found for a certain proportion of the disabled. An instance is provided here of the difficulty of determining whether the cause is strictly personal or whether it should be classed with the economic or social influences. Industrial accidents are ever increasing while many physical deformities are doubtless due directly or indirectly to the factory system. To say that these causes are entirely personal would tend to throw on the wrong shoulders the responsibility for the people affected. The obligation should fall on the employer if the cause can be attributed to him, or on the State if the cause is less specific, springing from the economic system in general.

With regard to old age as a cause of unemployment, it is found that men are not discharged by reason of old age only, any more frequently now than in the past. What is found, however, is that

**Personal  
Causes of  
Unemployment.**  
(a) **Physical  
Disability.**

not as important as the deeper economic causes outlined above. It is not easy, however, to say which factors are strictly personal, and which factors are themselves the consequences of the economic and social

immobility becomes more marked with advancing years, that a man's adaptability declines, and that if a man after middle age loses his employment, whatever the reason, he finds it increasingly difficult to secure fresh employment. Messrs. Rowntree and Lasker found in an investigation of unemployment conditions in York that nearly a quarter of the regular workers employed at the time of their survey found re-entry into industry difficult on account of age.\*

Though its extent is liable to be magnified, the existence of a "won't work" class cannot be entirely ignored. Perhaps it would be better to group the habitual vagrants and criminals among the unemployable rather than among the unemployed. Also, there are those who are willing to do some work, but very spasmodically, and seldom for a long stretch at a time. It is difficult to secure information on the amount of idleness caused specifically by defects in character, but the proportion is probably very low. The Departmental Committee on Vagrancy reported in 1906 that the permanent vagrant class numbered between twenty and thirty thousand for the whole country. It was estimated that in times of industrial depression the number of persons with no settled home and no visible means of subsistence might amount to seventy or eighty thousand. Dealing with the second class, *i.e.* those who of their own volition only work now and again, the Report goes on to say, "Under present conditions, the casual workman who takes to the road is almost certain sooner or later to join the ranks of habitual vagrancy."†

The term "unemployable" which has been used in this connection is somewhat ambiguous; it may be taken to indicate both the casual hanger-on and the permanently idle, but its meaning is sometimes even wider.

\* Rowntree and Lasker, *Unemployment: a Social Study* (1911).

† Report, pp. 22-24.

“Whether a man is employable or not depends upon the work which has to be done. The best carpenter in the world is unemployable as a compositor . . . A man whom it does not pay to employ in one industrial grouping may be fully worth his wages in another . . . It is . . . quite impossible to make hard and fast distinctions, or to separate a definite class of the unemployable. Not only is the line between this class and the rest of the community very hard to define even in theory ; in practice, men shift from one side to the other, and the line itself shifts according to the point of view of the observer.” \*

If one interprets the “unemployable” as those who owing to deficiency in character will not work, and the “unemployed” as those who genuinely want work but cannot find it, one may affirm that the former present essentially a social problem, while the latter present an industrial and economic problem. Indeed, one might omit all these personal causes from a scientific analysis of unemployment *as an industrial problem*. Many writers have adopted this plan, specifically excluding the incapacitated, the aged and the deficient from their definition of the unemployed. A drawback of this definition, however, is that it tends to ignore those “personal” reasons which are themselves the outcome of the economic system.

The causes considered in the previous pages do not, of themselves, explain the unprecedented unemployment in this country in the years following the war. To understand the position it is necessary to supplement the above reasoning with a survey of the exceptional conditions that have arisen during the last few years. It will be shown that the unemployment at the present time is due, to a

\* Beveridge, *Unemployment*, pp. 136-137.

very large extent, to the destruction of resources and waste of productive power during 1914-18.

An immediate effect of war is to divert labour and material from peace industries, in which a large proportion of the output is used for *reproductive* purposes, into war channels, which prove to be not merely non-productive but actually destructive. In peace time a certain quantity of labour and material goes to produce (say) a sewing machine, which itself helps ultimately to produce a still greater amount of wealth. In war time the same resources may go to make a shell, the "utility" of which disappears with the explosion. And when damage is caused to life and property, the real loss is of course considerably increased.

Unless production in other directions is enormously speeded-up, the country at war necessarily finds itself impoverished, even if there has been no literal destruction of property in her territory. During the war she is like a spendthrift whose expenditure exceeds the income, and who has to draw on capital to make up the deficit. The British Government was spending at one time six or seven millions a day on war purposes alone, while the British people were freely spending money on "domestic" purposes. The most optimistic cannot suggest that her real net production (as distinct from accumulated wealth) approached anywhere near the total expenditure. Capital was being encroached upon, it was a "rake's progress" which must have resulted in bankruptcy if the war had gone on much longer. Despite the considerable improvements in industrial organisation and productive capacity, the country in 1919 was relatively poorer than in 1914; her spending power—and therefore her demand for goods—was correspondingly reduced.

The fact that many men have been killed or incapacitated further reduces the country's productive capacity. If the death of a producer meant a corresponding drop in the consumption, it might be argued that the community suffered no net economic loss. But a man normally produces more than he personally consumes, and the death of every breadwinner means, in addition to the personal anguish, a loss of productive power to the country as a whole. As for the disabled, their productive capacity is seriously impaired, but their power of consumption remains roughly the same. The Census of 1921 showed a slight addition to the population; yet while the number of mouths to be fed has increased, the number of hands (as it were) to feed them has relatively declined.\*

(b) **Reduction of Labour Power—in Quantity and Quality.**

\* One frequently comes across the argument that the less the number of workers, the more employment there should be for each. Thus instead of unemployment there should be more employment than ever. For a short period, and for special classes of labour, there is a certain element of truth in this contention. Where there is a fixed amount of replacement and reconstruction to be done, the demand for labour is more or less pre-determined, and the fewer the workers the more employment for each. Again, if a definite number of houses is to be built, and not to be exceeded however quickly the houses are constructed, in such circumstances it could be maintained that the fewer the men engaged, the more employment there would be per head; and conversely if the number of men were increased. But this type of demand is exceptional. Even with houses the demand is not so inelastic as was assumed for the purposes of this example, and if the houses were produced more quickly, the price would fall, not necessarily because of any reduction in the rates of pay, but owing to economies in other directions—*e.g.* better organisation, less overhead charges, shorter period of "waiting" for reward of capital, etc.

With commodities of a different kind this is even more true. The main criticism of this "limited work-fund" theory (*cf.* the wages fund theory, pp. 53-6) is the omission to note that as a general rule work is cumulative in its effects, *i.e.* one man's labour directly or

Besides the quantitative reduction in labour power, one has to face a certain depreciation in the quality of labour. The skill of a craftsman is not improved by years of combatant service, and many have found on returning to industry, even where employment awaited them, that the hand has lost its cunning. But more serious has been the effect on the younger generation of service men. Youths, who normally would have spent the years between 18 and 21 in perfecting their education, either at college or as apprentices in the factory, went into the fighting services, and thus, in most cases, lost for ever the opportunity of fully developing their industrial capabilities. The loss of quality was offset to a limited extent by the technical training given to some of the service men during the war, and (to a very small degree) by the educational facilities offered to some ex-service men after the war. The net result, however, was a reduction in national economic efficiency, which diminished the total output, which in turn reacted, in the way described above, on the demand for labour.

Much economic loss was caused by the conversion of machinery and buildings, used for supplying  
 (c) Depreciation of Plant. peace requirements, to purposes of war.  
 Almost as serious was the absence during war years of an adequate allowance for wear and tear, except

indirectly provides employment for another. It is provided directly if the product itself serves as capital goods in the production of further wealth. It is provided indirectly in that the wages of labour are spent in purchasing things in the production of which further employment is necessitated. In the aggregate, therefore, and especially over a long period, "work creates work." This, together with the obvious advantages resulting from an economical division of labour, only possible where large numbers are available, demonstrates the fallacy of arguing that after the war there should be more employment since there are fewer workers than before.

where the plant was utilised for turning out war products. That portion of gross profits usually earmarked for depreciation account was frequently, for one reason or another, diverted to other channels. Machinery which was not adaptable to war purposes lay idle in many cases for the whole period, and, with the coming of peace, necessitated expensive overhauling, if it was not altogether obsolete.

On the other hand, some of the machinery built expressly for turning out shells and other war requirements was found adaptable to peace purposes later on. And it must be admitted that certain firms took undue advantage of the abatement allowed from Excess Profits Duty in respect of renewals, and materially extended their plant, which was adapted later to turning out peace products. Taking everything into account, however, it is probable that the net additions to the country's machinery and other capital goods were more than counterpoised by the depreciation, rough wear and other losses.

The effects of war on the home market have been partly indicated above. The effects on the foreign  
 (d) **Crippling of Foreign Markets.** markets are almost as serious in the case of a country like Britain, which depends to such a large degree on foreign countries for sources of materials and markets for her products. The exchange of goods between countries that have been at war with each other cannot be expected to return immediately to pre-war dimensions. Whether the reason be national poverty, or currency chaos, or patriotic sentiment (though this has not had altogether the restrictive influence on trade with the late enemy as was frequently predicted during war-time), foreign trade is seriously hindered ; and workers who in pre-war days were engaged in making goods for these markets now find themselves to a large extent unemployed.

The position with regard to trade with late allied and neutral countries is only a degree less serious. These countries, especially the late allies, are usually in an impoverished condition, while a country which may apparently have "done well" out of the war cannot view the situation with equanimity. Her potential productive capacity may be very high, yet her foreign trade be below normal, owing to the poverty of her customers, and to other marketing difficulties. America might want to sell goods in (say) Russia or Central Europe, yet be unwilling to purchase other goods in return. There is an obvious limit to gold shipments, and the would-be exporting country soon finds that "a country which will not buy, neither shall it sell." And so employment is adversely affected even in countries which have not visibly suffered to a heavy degree by the war. It can be shown that employment in neutral countries is adversely affected for more or less similar reasons.

A full examination of the fiscal and financial reasons for post war unemployment would necessitate a volume in itself. For the present purpose it is sufficient to indicate very generally the nature and operation of these complex causes.

(e) **Fiscal and Financial Reasons.**  
(i) **Heavy Taxation.**

Wars usually leave behind them a heavy burden of debt, and the interest and principal repayments on this entail considerable taxation. Britain's war debt of about seven thousand millions necessitates nearly a million pounds per day for interest alone, and little under a half of the total Budget is in respect of National Debt Service. The collection of these sums in taxation does not necessarily mean a final loss to the country's capital assets (except in the case of payments to persons abroad), for practically all the money raised flows back in interest and principal repayments. There is, however, a

certain loss in the expense of administering the debt and raising the taxation which would be alleviated if the debt and the extent of taxation were reduced. The productive capacity of the community also suffers when firms have to realise on their capital or restrict genuine enterprise in order to pay the tax demands.\*

Depreciation of the currency is an all too frequent feature in the financing of modern wars. Much dis-  
 (ii) **War-time** location and suffering is caused by the  
**Finance.** constant rises in prices that inevitably follow inflation of currency and credit. Increases in wages generally lag behind rising prices, however efficiently a cost of living index number is contrived, while those whose incomes are fixed are the most hardly hit. Further, people faced with a prospective rise in prices are encouraged to spend their income as soon as it is received. This not only

\* Taxation, however, provided it is efficiently and equitably administered, need not reduce the country's economic capacity; indeed it is arguable that if the taxing scheme were so arranged as to re-distribute the national dividend more equally among the people, the social welfare would be increased, though the social dividend measured in terms of money remains pretty much the same. This may be simply illustrated. Suppose *A* has an income of £1,000 per year and *B* an income of £200. In accordance with the law of diminishing utility, a sovereign has relatively less utility for *A* than it has for *B*. Therefore (to take the extreme case), if £400 were deducted from *A*'s income and added to *B*'s, the total *money* income of the two would still be the same as before, but since, according to this theory, *B* gained more utility by the acquisition of £400 than *A* lost by its surrender, the total welfare of the two would be increased. The same line of argument could be applied to the community as a whole. Also, more necessities would be demanded and fewer luxuries, and, as the demand for necessities is more re-productive in its consequences than the demand for luxuries, there would follow a beneficial influence on employment.

sends prices up further but it reduces the amount of savings necessary for production.

From the standpoint of trade and employment, the effect on the foreign exchanges is, in some ways, even more serious. A trader who wishes to have credit dealings with a foreigner is not very concerned with price movements in the past. What he wants is stability, to be sure that when the time for settlement arrives the purchasing power of the money is the same as when the debt was contracted. But over-issue of paper money makes for instability, and this must tend to hamper trade, and therefore employment.

Experience has shown that reparations and indemnities (iii) **Reparations** are not an unmixed blessing to the recipients. **and** If a large proportion of the amount is paid in **Indemnities.** gold, there is danger of a rise in prices and other financial complications. Witness the rise in prices in Germany following the payment of the French indemnity after the Franco-Prussian War. But in any case the supply of gold is far too small to satisfy present day exactions, and reparations must necessarily be paid almost entirely in goods and services. Unless great care is taken not to upset the home market, the effects may be disastrous. In the first place, people engaged in producing those things now handed over "free" by the late enemy may now find their employment reduced or even gone. Secondly, people engaged in producing *other* things may find themselves unemployed, if in the ordinary way their product is exported to the late enemy country. "Exports pay for imports," and if a proportion of the imports is now coming in without any corresponding outward payment, unemployment may be caused in the export trades so affected. Thus the delivery of German coal was partly responsible for the depression in the coal-mining industry in this country. It is not

so easy to impose and collect levies nowadays as in the time of Caesar.\*

This short analysis of the principal causes of unemployment gives but a rough idea of the complexity of the problem. The emphasis to be laid upon the several causes naturally varies according to the special conditions of the time. The part played by war in causing unemployment has been stressed in the foregoing pages, for much of the unemployment at the present time is directly attributable to waste and destruction during the years 1914-18. But war cannot be regarded as a primary cause, for unemployment would remain, though to a smaller degree, even if world peace could be secured. The personal causes of unemployment have been lightly passed over, partly because they are not responsible for much unemployment in the aggregate, partly because they are often but the reflex of deeper causes. The real sources of unemployment have been shown to exist in the economic and social structure itself, and many writers have despaired of a thorough solution to the problem while the present system of production and distribution remains.

One type of unemployment, however, will always be with us so long as we continue to make economic progress, namely, that arising from the discovery of substitutes, innovations in machinery and changes in industrial organisation. Though the ultimate result of these re-arrangements may be to the advantage of the community, the immediate

\* The statement of the fiscal and financial causes of post-war unemployment has necessarily been brief, in view of the limited scope of the present work. For further examination of this important subject, reference may be made to Keynes, *Economic Consequences of the Peace* and *Revision of the Treaty*; also to Angas, *Reparations, Trade and Foreign Exchange*.

effect is liable to be unemployment and distress. Progress is rarely smooth and uninterrupted, and every improvement tends to dislocate some part of the general system. There are other causes of unemployment, such as climatic conditions, that are outside man's control. Unemployment due to such causes would have to be reckoned with under any form of industrial organisation.

An outstanding cause of unemployment has been shown to be the defective co-ordination among producers, who, in the absence of adequate guidance or co-operation, tend to turn out goods in excess of the actual demand, and then have to cut down their output until the glut on the market has been absorbed. Similarly, the lack of co-ordination in the demand for workers has led in many industries to a "labour reserve," which, in the opinion of some authorities, is the crux of the whole problem.

Dependent to some extent upon the deficiencies in the arrangement of production are the alternating periods of good and bad trade known as the trade cycle. Though there is no unanimity as to what is the cause of periodical fluctuations, there is agreement on some of the more important aspects. Economists differ as to the order of importance of such factors as credit, unequal distribution, climatic changes, etc., but few deny that each of these influences has *some* part in affecting employment.

Finally, there is the question of the distribution of the social income, in so far as it affects the spending power of different sections of the community. It is not only a matter of how much in terms of cash the different classes receive, but of the types of goods that they call for. It has been submitted that a better system of distribution would, by altering the nature of the community's expenditure, cause a more regular demand for labour and add to the general economic welfare.

The effects of unemployment are too evident to need extensive description. The very fear of unemployment is prejudicial to a worker's happiness and efficiency, while actual unemployment is probably responsible for as much misery as that caused by poor health and disease. The immediate effect of unemployment is obviously a reduced income, and, as savings are usually insufficient to support the family for any length of time, the result, in the absence of other measures, must necessarily be a fall in the standard of life. Further, irregularity of income is in itself an undesirable thing; as shown elsewhere,\* a given annual income distributed equally over the year is of greater benefit than the same sum irregularly received.

A reduced standard of life soon reacts on the efficiency of the worker, who may find, when employment is again secured, that his technical skill, and therefore his earning capacity, is considerably diminished. Or he may be compelled to take any unskilled job that comes along, with the result that he never returns to his skilled work, while the already crowded number of unskilled is further swelled. Unsteady employment tends to destroy one's consistency and sense of responsibility.

Insufficient nourishment soon has marked effects on the mother and children. The mother is frequently driven to find employment, and home life suffers in consequence. If she secures work at home, the rates of pay are notoriously low, and she tends thereby to bring down the wages of workers in the factory. The children are taken from school immediately the law permits, and, more often than not, put into some prospectless occupation.

The effects just outlined are cumulative in their incid-

\* See p. 16.

ence, and when "good times" come along the losses are never really made up. The worker's efficiency may be permanently impaired, and his very character seriously depreciated. The mother's physique may have been weakened, thus discounting the chances of the unborn children. The youth who, through unemployment of his father, was compelled to earn some money at the earliest opportunity, may find himself on the "industrial scrap heap" on reaching the age of manhood. The economic, social and moral effects of unemployment are thus as serious in their ultimate as in their immediate incidence.

It is evident, therefore, that unemployment is not only a result of trade depression, but is itself a factor contributing to further unemployment. The causes and effects of unemployment form a vicious circle. Workers who are discharged or put on short time find their income reduced. Less spending power means that many goods which had been produced in anticipation of the workers' demands are left unsold. Production is in excess, not of what *could* with advantage be consumed, but of what the workers are now able to demand with their restricted incomes. The output of these articles, therefore, is cut down, and further unemployment is caused. People are unemployed because there is no effective demand for their products; people have no demand for these products because they themselves are unemployed.

## CHAPTER XI.

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### THE PREVENTION AND RELIEF OF UNEMPLOYMENT.

In the previous chapter were examined the principal causes of unemployment. Though mere statement of causes does not indicate the cures, it helps to clear one's thoughts on the subject, and prepares the way for reform. Many of the causes enumerated tempt one to give mere counsels of perfection. For example, if war were to be abolished, an abundant cause of unemployment would be removed. In these pages, however, one can consider only the means of coping with unemployment that are actually being applied, and those that might be put into practice at the present time.

It is necessary to distinguish between (1) the measures that are designed to *prevent* unemployment, and (2) those intended to *alleviate* the distress consequent on unemployment. In the past, comparatively little has been done to prevent unemployment, thought and effort being concentrated upon relief rather than cure. Even now, nearly all social activity relating to unemployment is concerned with remedies that do not go to the source of the evil. It is, of course, easier to allay a pain than to remove the root, and when the distress is actually upon us, it is only natural that alleviative methods should be most in evidence. The time to think of preventing unemployment is not so much in periods of depression as during years of prosperity.

It was shown above that trade appears to move in cycles. The periodical "booms" and "slumps" are not confined to particular industries, or, for that matter, to particular countries. The question has given rise to much inquiry in recent years, and numerous proposals for steadying the fluctuations have been submitted.

Schemes for Steadying Cyclical Fluctuations. There is as much difference of opinion on the cause of cyclical fluctuation as on any subject in economic science. It is generally agreed, however, that no *single* cause is responsible for the periodical movements, and that, therefore, no single course of action can be entirely successful. To the extent that trade is influenced by meteorological conditions, there is, in the present stage of science, no solution of the problem. But ignorance of the true causes of the trade cycle should not preclude action designed to minimise its effects.

"We cannot prevent the cyclical depression itself, for its causes are beyond our grasp, even beyond our certain knowledge, any more than we can stop the east wind. But because we cannot stop the east wind, there is no reason why it should be allowed to give us a cold! There is such a thing as an overcoat."\*

The different types of "overcoats" will be considered later. For the moment, one may ask whether there are not some ways of diminishing the intensity of the trade cycle, if only by reducing one or two of the contributory causes. Thus, since the imperfect co-operation of producers leads to over-production and thereby to depression, might not some method be devised to prevent the overlapping of output by competing firms? If firms in competition cannot find a way out of this difficulty, the decision as to the proper output must ultimately rest with a trust or a public authority.

\* S. and B. Webb, *The Prevention of Destitution*, pp. 112-113.

In so far as over-production is facilitated by the credit system, steps might be taken to control the issue of credit, *not* when the depression is imminent, but throughout the whole period. In times of rising prices and trade prosperity, banks might be a little less free with their loans.\* This in itself would check the increase of effective money in circulation, and thus restrain the tendency to a rise in prices. Speculative dealings would also be restricted. Thus, when the turn of trade was reached, the "peak" would not be so high, and the number and extent of subsequent failures not so great.

Though one can understand the temptation of bankers to grant credit facilities very freely during the period of booming trade, it is ultimately in their own interests to control the expansion of credit. The recent amalgamations, and the resulting concentration of directive power in the hands of a few large banks, make control of credit issues more practicable than it was formerly. If the bankers, however, do not take these precautions, it may be necessary to impose some form of control from without, either from the central bank or from the State.

The Bank of England is still a power in the money market. By raising the Bank Rate it would help to increase the price of credit, to discourage borrowing, and thus to prevent undue credit inflation. By lowering the Bank Rate, it would tend to check undue deflation. The State itself could intervene in more than one way. It

\* Use of a "Trade Barometer" would here be of great service. For the compilation of a satisfactory indicator of this kind, considerable statistical information, covering all industries over a large number of years, would be essential. Experiments in this direction are already being made; *e.g.* the "Barometer" compiled jointly by Cambridge University and the London School of Economics.

might, either with or without the assistance of the Bank of England, set a limit on credit issues, restricting the creation of credit documents in much the same way as it limited the issue of bank notes in the Bank Charter Act of 1844.

Together with a control of credit issues, the State might also manage the currency so as to help in regulating the level of prices. Thus, when prices are rising, and it is feared that false optimism and speculation might lead to a crisis, credit issues might be reduced and currency withdrawn in order that the tendency of prices to rise should be restrained. Conversely, when prices are falling, increasing the credit facilities and the amount of currency in circulation would check the downward trend. This, of course, is but a bare statement of the plan that might be adopted, and in practice many complicating factors would have to be allowed for. It is outside the province of this book to enter into the financial complexities of the question, it being sufficient here to state that public control of money and prices should not be outside the realm of "practical politics."\*

In periods of trade depression (apart from the exceptional conditions following the world war) about fifteen-sixteenths of the wage-earners are still in employment, while about 95 per cent. of the highest aggregate paid to labour in good years is still paid in wages. In fact, during the first ten years of the present century, "it was the falling short of little more than two or three per cent. of the total wage bill—of something like fifteen or twenty millions sterling—that made the difference between a year at the top of the 'boom' and a year at the bottom of the

**Control of  
Public and  
Private  
Construction.**

\* For a fuller account of this subject, reference should be made to Irving Fisher, *Stabilising the Dollar*, and Keynes, *A Tract on Monetary Reform*.

“slump.”\* The Government and local authorities spend annually, it is estimated, about eight or ten times the amount of the difference in the wages bill between a good year and a bad year. Dr. Bowley calculates that “if only three or four per cent. of the Government orders year by year were reserved, to be executed all together when trade began to fall off, this would counterpoise the cyclical fluctuation, so far as all the industries are concerned in which cyclical depressions are at present met by dismissal of hands instead of going on short time. The re-arrangement in this way of no more than forty millions of expenditure during the whole of the decade 1897-1906 would have smoothed out all the yearly fluctuations in the volume of business during this period, and would have made the national aggregate demand for labour in these industries approximately uniform one year with another.”†

This, then, is “the overcoat against the east wind,” proposed by Mr. and Mrs. Webb. Let there be a “Ten Years Programme” of public work, to cover all those services which need not be provided in any particular year, *e.g.*, building, printing, roads, afforestation, ships, telephones, etc. As the percentage of unemployment rises, more Government and municipal orders should be placed. When, on the other hand, employment is good, these orders should be reduced (except, of course, those for urgent services). Such a scheme would also help the dependent trades, while the sustained buying power of the workers would be of general advantage. This policy, too, is superior to relief work, which, being largely unskilled in character, is often unsuited to the abilities of trained men who have been discharged.

\* Webb, *The Prevention of Destitution*, p. 113.

† Quoted in Webb, *op. cit.*, pp. 113-4. See also Dr. Bowley's evidence before Poor Law Commission.

Though these remarks have been confined so far to public bodies, there is no reason why some large private firms should not pursue a similar policy. The railway companies, for example, might put off the extensions of permanent way or the building of locomotives, that are not immediately required, and thus help to spread out employment more evenly.

"Systematic accumulation of reserves by business men in times of prosperity for use in plant extension and improvement in times of depression would, if widely adopted, be an excellent method of controlling the crest of the boom, and ameliorating the depression. It has the advantage that it is a method which any business man may adopt to his individual advantage."\*

The main advantages accruing to business men from such a policy would be the maintenance of the buying power of the workers directly or indirectly employed, while economy would be effected through the lower cost of materials, etc., in times of depression.†

\* Recommendations (VII.) of the President's Conference on Unemployment (U.S.A., 1923), p. xviii.

† "Prominent among the concerns that have adopted a systematic plan for the prevention and relief of unemployment is the Dennison Manufacturing Company, Framingham, Massachusetts. This Company started as a manufacturer of Christmas trinkets; its busy season beginning in September, when retailers ordered their goods, and ending with three or four months of concentrated production and overwork. By the application of certain clearly defined principles, the company has reduced seasonal employment: these may be briefly indicated as follows:—

"(1) Seasonal orders are reduced by getting customers to order at least a minimum quantity of goods well in advance of the season. This is accomplished by merely asking for business, by persuasive salesmanship, and by promising greater security as to delivery.

"(2) The proportion of non-seasonal orders is increased. Effective selling secures "hold orders" which are not to be delivered until a certain date, and orders to be delivered when ready.

"(3) All stock items are planned more than a year in advance. On

The principal scheme for meeting the seasonal demand for labour is that of "dovetailing" suitable occupations, so that the workers in a seasonal trade may be found employment in another trade during the off-season. It has been contended that "there is practically no seasonal fluctuation in the demand for labour *in the com-*

the basis of the previous year's sales the warehousing department ascertains a year in advance just what amount of stock items will be required, a fact which makes possible proper distribution of production and assures a steady flow of commodities to customers.

"(4) Departmental needs are planned well in advance. This assures the necessary amount of raw materials and other prerequisites when needed, and prevents a slowing down in production with its loss of time to the workers and money to the company.

"(5) The building up of 'out-of-season' items and varying the lines of production in order to balance one demand against another are encouraged. New paper box items not used for holiday purposes are developed, and staple articles are made for stock. This levels production and steadies employment.

"In addition to these methods of decreasing the pressure of seasonal demands, other adjustments are applied by the company, such as the balancing of decreased production in one department against the surplus in another. Transferring workers from the inactive to the active departments assures them of employment and makes them more generally proficient. In order to meet any contingencies of unemployment that get beyond the control of the company, unemployment relief is provided in the form of an unemployment fund, set aside by the directors out of profits and accumulated over a period of five years. This is not a form of charity; the fund is administered by a joint committee representing the company and the workers. The company's efforts have been unusually successful. The number of employees increased steadily from 1,840 in January, 1916, to 2,650 in January, 1922, the firm passing successfully through the period of acute unemployment of the years 1920-22. The president of the company attributes the achievement to improvements in management and in the morale of the workers." Bailey: *Modern Social Conditions*, (U.S.A.), p. 214. See also *American Labour Legislation Review*, Vol. XI., March, 1921, pp. 53-58.

*munity as a whole,"*\* and that the aggregate volume of unemployment varies but little at any time in the year. But this has been disputed by some writers,† who maintain on the contrary that the winter causes a marked contraction in the total demand for labour. Statistics of unemployment appear to bear out the latter contention. It is undeniable, however, that in every month of the year, some important industry is having its slack period while another great industry is at its busiest.

It is proposed to transfer labour from an industry during its period of slackness to another industry which at that time is in need of labour. The employment exchanges‡ are to provide the machinery, which is to be set going *before* unemployment occurs.

An obvious difficulty is the comparative immobility of labour, especially that due to specialised skill. But as public constructional works depend largely on unskilled or semi-skilled labour, and as about fifty per cent. of the wage-earners are technically of this class, dovetailing should be practicable at least for these. For the skilled workers and for the others who cannot be transferred, a regular scheme of short time rather than dismissals should, wherever possible, be introduced. Some economic aspects of the short time policy are considered below.

To a certain extent, public constructional works might be set in operation at those times of the year in which the requisite labour is temporarily not required by a seasonal trade. For example, the Government and municipalities might order their furniture to be made in the winter months when the furnishing trade is slack, and order the non-urgent

\* S. and B. Webb, *The Prevention of Destitution*, pp. 124-5. See also Webb and Freeman : *Seasonal Trades*, p. viii.

† E.g. Pigou : *Unemployment*, p. 109.

‡ See Appendix D for the work of the Employment Exchanges.

printing in August and September when the printing trade is depressed. Though too much reliance should not be placed on this "de-seasonalising" scheme, it would do something to remedy the evil.

The incidence of unemployment may be lightened in some cases by resort to the method of short time rather than dismissals. It is true that short time is more alleviative than preventive ; but, where it is practised, the distress is appreciably less than where dismissals are the rule, while many of the serious consequences of unemployment are prevented or minimised.

When production has to be cut down, an employer has three alternative methods. He may dismiss a certain number of workpeople, keeping the remainder in full employment. Or, secondly, he may retain the whole staff, but conduct a system of rotation, under which the workers are employed for (say) three weeks, and go idle for the fourth week. Or, thirdly, he may retain the whole staff, who work short time week after week instead of intermittently as by the second method.\*

The first plan, *i.e.* full time for some workers and dismissal of the rest, tends to be preferred where the workers are not skilled or are likely to be in plentiful supply when the demand becomes brisk again. Further, it will tend to be more common where the workers are paid on a time basis ; the least efficient will be dismissed first.

The "rotation" plan does not find great favour with the management, on account of the inconvenience and complications involved. But with the development of Unemployment Insurance this method has been adopted in certain quarters in preference to short time, the reason

\* For a thorough analysis of this question, see Pigou, *Economics of Welfare*, Part III., Ch. X. (1920 Edition).

being that a man out of work for (say) one week in four would be eligible for unemployment benefit for that week, whereas if he lost (say) 12 hours a week on short time he would draw no benefit. The rotation plan, however, has more in common with the short time than with the dismissal plan, as the whole staff are still retained on the books of the firm.

The third plan, *i.e.* short time for all the staff, is practised where the conditions suitable to the dismissal or rotation plan are not present. Thus it tends to be adopted where some hours of work are more expensive than others (*e.g.* in lighting and heating); also in the case of skilled men, whom the employer is anxious to retain. Further, whereas dismissals tend to be the rule in industries in which wages are paid on a time basis, short time is usually preferred where the wages are on a piece basis, for in such instances the temptation to dismiss the least efficient is not so strong.

So far, the possibility of collective arrangements has not been taken into account. Trade union action has in many cases been successful in countering a tendency to the dismissal plan, and it may be broadly stated that where the workers are effectively organised there will be an added reason for short time rather than dismissals.

If there is an opportunity of alternative employment, the dismissal plan is better than the short time plan. This might happen when an individual firm cuts down its output while trade in general is fairly prosperous, and employment can be secured elsewhere. But when trade as a whole is depressed, this justification for dismissals becomes insignificant. As a general rule, the short time plan (including rotation where specially suitable) is to be preferred.

In the first place, short time causes less suffering than dismissals. If, owing to short time, a number of families

have to cut down their expenditure by one-third, they will forego the comparative comforts, and will concentrate their expenditure upon the prime necessities of life. In accordance with what the economist calls "the law of diminishing utility," the aggregate sacrifice will be *less* than a third of the original total utility.\* But if two-thirds of these people retain full time employment, the other third suffering dismissal, the aggregate sacrifice will tend to be greater than in the first case, since that proportion of the money which is being spent by the fully employed on relative comforts would have secured a greater utility if spent by the now unemployed on the necessities of life.

Secondly, short time is superior to dismissals since there is less danger of the worker deteriorating in skill and character. A man who is unemployed for a length of time may lose touch with his trade, take on odd jobs, become impaired in health and nature, and gradually drift into the ranks of the "unemployable."

The question of under-employment and the labour reserve is, as Sir William Beveridge points out, essentially one of business organisation. "It has to be seen as a problem, not of rescuing individuals, but of reforming an industrial method."†

**Schemes for  
Coping with  
the Reserve of  
Labour.**

\* For example, a shilling spent at a cinema gives, as a rule, less utility than the same amount spent on food. If one's income were reduced, one would usually restrict expenditure at the cinema before cutting down expenditure on food. The article of relatively little utility would be the first to go, and the smaller income would be spent on articles of relatively great utility. Hence, the total utility of the income, *i.e.* the total satisfaction to be obtained from spending it, does not, in general, fall in the same proportion as the income itself measured in terms of money.

† *Unemployment*, p. 110.

Any plan which is successfully to cope with this problem must be at least three-fold, comprising—

- (a) An improved method of engaging labour ;
- (b) A scheme of decasualisation ;
- (c) Absorption of those thrown into permanent unemployment by the operation of (a) and (b).

The reserve of labour means that there are more men waiting about for jobs than it is possible to engage, even on busiest days. The employers' demand for labour, both individual and collective, constantly changes. Each employer tends to have a reserve to draw upon, and the total of all the reserves is invariably in excess of the requirements. The remedy sometimes proposed is the prohibition of casual hiring, an employer being compelled to guarantee a minimum period of work. Such a policy, however, is beset with many practical difficulties, such as the inability of many employers to guarantee any consecutive employment. It is conceivable that such a cure might result in more hardship than the complaint. The evil of under-employment results not so much from the casual demand as from the maintenance of *separate* labour reserves. A better proposal, therefore, is to have one common reserve in each industrial centre, from which employers may secure labour as required. Employment exchanges could provide the centre for organising the fluidity of labour, and private hiring of casual labour would be stopped.

An essential preliminary to the above scheme would be the control of entrance to the industry. In  
 (b) Decasualisation. Liverpool a scheme has been in operation for some years, whereby work is given only to registered men, thus keeping away from the docks the unemployed in other industries. Similarly, the Port of

London Authority has a permanent and a preference labour staff. Registration schemes are practised in most of the other ports. The general principle in the decasualising process is to allocate successive jobs, under different employers, to the same individuals. Considerable progress has been made in recent years towards the goal of a "guaranteed week."\*

An organised single reserve would, of course, necessitate a smaller number of men than would a plurality of reserves. To complete the scheme, therefore, means would have to be adopted in order to absorb those who became altogether unemployed as a result of the continuous employment offered to those in the main reserve.

Some propose the maintenance of the surplus men at public expense. But this alone is not a solution of the problem, as it does not *absorb* the labour. Maintenance of skilled workers during temporary unemployment is a different proposition from maintenance of the unskilled who are expelled from the main reserve. A more constructive measure, supplementary to maintenance, is essential.

Others suggest "back to the land" as a means of absorbing the surplus.† Doubtless something in this direction could be accomplished if a proper system of small holdings were devised, but it is questionable whether any appreciable proportion of the men would be absorbed. The fact must be faced that England is primarily a manufacturing country, and that the economic use of the land for agricultural purposes is strictly limited.

\* See Lascelles and Bullock, *Dock Labour and Decasualisation*, 1924, for a descriptive and analytical account of recent developments.

† *E.g.* Rowntree and Lasker, *Unemployment—A Social Study*, p. 142.

The recommendations of the Minority of the Poor Law Commission may be noted here.\* Three reforms were proposed, each of which was a desirable step in itself, apart from the beneficial effect it would have in absorbing the persons set free by the decasualising scheme. To a limited extent these proposals have been adopted, but there is still ample scope for further application.

The first reform proposed was the *raising of the school-leaving* age, and the provision of some technical training during the latter years of the school curriculum. Two advantages would thus be achieved. The youth of the country would receive a better preparation for industrial life, and be less likely to swell the ranks of unskilled workers. Also, the competition between youths and adults for employment would be reduced, providing an opening for some of the surplus labour.

The second proposal was the *reduction of hours of labour*, where they were in excess of the normal working day. It was not argued, of course, that a reduction in hours would in all cases reduce unemployment, for, in so far as a shorter working day improved the worker's efficiency and caused a greater output per hour, there would be no demand for extra labour. There are still many occupations, however, in which the length of the working day is injurious to the worker and relatively uneconomical to the community. Systematic overtime, too, is carried to excess in certain industries. Reduction of hours in these occupations would alleviate the burden of the workers therein, and provide work for a number of unemployed.†

The third proposal was the public *maintenance of widowed mothers of young children*. Before the war, about 100,000

\* See *Minority Report*, pp. 271-280; also Webb, *Prevention of Destitution*, pp. 132-137.

† For the inter-relation of hours and employment see pp. 108-9.

widows with dependent children were in receipt of inadequate relief under the Poor Law, and the number has grown since then. Here, again, a double object would be achieved. Widows would be relieved from the burden of seeking employment, often unsuitable, and would be able to give proper attention to their children, while their withdrawal from the labour market would place a large number of openings at the disposal of the employment exchanges.\*

To these recommendations of the Minority of the Poor Law Commission other proposals can be added. Thus, the retirement from industrial life might be effected at an earlier date by *reducing the age limit for old age pensions*. If there must be unemployment at all, it is preferable that old people should be relieved of arduous toil, and that employment should, as far as possible, be allocated to workers in their prime.†

Further, there is the proposal to *extend the area of industry*. As shown in the previous chapter, there are in the best of times about two per cent. of the wage-earners unemployed, and some of these might find permanent employment if the scope of industrial effort were widened. There are certain necessary economic services which, since they do not give an immediate return, are rarely undertaken by private enterprise. Afforestation, for instance, is a vital necessity, but, as many years have to elapse between the investment of capital and the gathering of the profits, few individuals are prepared to supply this service. Other essential services such as extended road and bridge construction are obviously beyond the scope of private enterprise, and should be supplied and maintained at public expense. Schemes of this nature would provide additional means of absorbing the surplus, and might cause

\* See below, pp. 343-5

† See pp. 340-3.

the so-called "irreducible minimum of unemployment" to belie its name.

It is obvious that a certain degree of unemployment is inevitable so long as society continues to advance in methods of production and organisation. Unemployment due to the introduction of machinery, for instance, would be found in the Socialist as well as in the individualist state. The proper course to be adopted is not to prevent machines from being introduced (and certainly not to smash them when set up, as the Luddites did a century ago), but to have some kind of control over the speed of their introduction.

**Control of  
Industrial  
Re-arrange-  
ments.**

The control might come from two or three quarters. Enlightened employers might so adjust the introduction of labour-saving machinery as to cause the least hardship. But the more intense the competition and price-cutting, the greater would be the difficulty of a conscientious employer, who sought to minimise unemployment in this manner. The pace would be set by the most unscrupulous employer, bent on immediate profit, and indifferent to the suffering his action would cause.

Secondly, the control might come from the employers and the workers jointly. So far as there is, at present, any effective regulation of the introduction of new machinery, it is exercised by elected boards, representative either of the trade unions and the employers' federations, or of the men and management of a particular firm.

Thirdly, the State might exert its influence and, by a maintenance or insurance scheme, compel the employers to bear a part or the whole of the burden of unemployment, occasioned by the introduction of machinery. But such a plan presents many difficulties. It is shown in a later chapter that insurance or maintenance by individual in-

dustries is not always practicable, and that the responsibility for the unemployed should rest, in the main, on a national rather than an industrial basis.

The problem is more difficult in the case of industrial re-arrangements due to improved methods of organisation. Where there has been overlapping of departments, some unemployment must necessarily be caused, yet attempts to restrict a programme of proper co-ordination and unification are to be deprecated. Indeed, in the long run, the economies may, as in the case of labour-saving machinery, lead to such a rise in the demand for the product that employment is actually increased.

Where, however, the re-arrangement leads to a monopoly, which deliberately restricts the output in order to force up the price and secure greater profits, the result may be the very reverse. But the fault does not lie with the concentration of production, which is a good thing, but rather with the restrictive policy of the monopolist. The real problem is to secure all the economies of unified organisation, but at the same time to prevent the monopolist from misusing his power to the detriment both of his employees and of the community at large.

Many maintain that unemployment is inextricably bound up with the economic system, and that, while such steps as those indicated in the previous pages might do something to reduce the evil, no real solution will be found until a radical alteration in the control of industry is secured. Mr. J. A. Hobson, for example, condemns the tendency to "fritter away the unity of a great subject" in detailed examination of many phenomena, which are themselves effects rather than causes, and which are liable to conceal the essential single cause.

In so far as the distribution of the social dividend could

Re-distribution  
of Income and  
Change of  
Industrial  
System.

be improved without changing the present system of industrial control (*e.g.* by taxation), employment would be increased, owing to a more regular and economical apportionment of spending power.\* There would be less consumption of luxuries and more expenditure on necessities and reproductive goods. Much of the problem presented by unemployment is at bottom a matter of wages. If the seasonal or casual worker received better rates of pay while actually at work, he would not in slack times fall into the same distress, and therefore not throw the same burden on the community as he does at present.

But re-distribution alone would not altogether cure unemployment, for, as has been shown above, one formidable cause, the absence of any co-ordination among producers, would be left untouched. Socialists argue, therefore, that attempts at re-distribution must necessarily be incomplete, unless at the same time some control is exercised over the system of production. In the individualist state, it is contended, resources and labour are too frequently misdirected; markets are glutted and unemployment results. The competitive struggle leads to combination, which often finds a restricted output and high prices the most profitable course to pursue. Reduced output involves less labour, while the higher prices cause, up to a point, a smaller demand for other goods, again affecting the volume of employment. The Socialist would substitute public for private production. Thereby, he claims, overlapping of functions would be eliminated and misdirection of efforts and materials would be less common, and, with the suppression of the restrictive policy of monopolist combination, output would be increased. All this, it is maintained, would increase and regularise employment, while consumers as a whole would benefit.

\* See above, pp. 241-2.

In the foregoing pages attention has been given to those devices that might be adopted to prevent unemployment. As stated at the commencement of the discussion, however, nearly all the measures that have actually been put into operation are of an alleviative, rather than preventive character. Until recent years the Poor Law was the principal instrument for relieving the distress consequent upon unemployment, but since the war Unemployment Insurance has come to be the chief scheme for coping with the evil. As the Poor Law and Unemployment Insurance are specially considered in the next two chapters, it is unnecessary to say anything here except that, of the two, Unemployment Insurance is vastly the superior.

Apart from improving and extending the Unemployment Insurance Acts, the post-war Governments of this country have passed several measures to provide national and local schemes of work. These schemes differ mainly from insurance in that money is expended on more or less productive work. The principal measures may be briefly indicated.

The Unemployment Grants Committee, appointed in 1920, assists approved public utility schemes, carried out by local authorities, by (1) grants based on wages paid, and (2) grants towards interest on loans. Under the first heading, approved schemes, financed otherwise than by loans, are assisted by grants of 60 per cent. of the wages bill of additional men employed. The Committee, down to 31st March, 1924, had been authorised to pay grants of over £3,250,000 in respect of schemes estimated to cost altogether about £14,000,000.

Under the second heading, approved schemes, financed by loan, are assisted by grants on the following basis :—

(i) revenue-producing schemes : 50 per cent. of interest in

Relief of  
Post-War Un-  
employment.

(a) Unemploy-  
ment Grants  
Committee.

respect of expenditure on approved schemes for a maximum period of 15 years ; (ii) non-revenue-producing schemes : 65 per cent. of the interest and sinking fund charges for a maximum period of 15 years. By the 7th February, 1924, the Committee had approved loans for grant amounting approximately to £44,000,000, the estimated capitalised Exchequer liability being about £14,500,000. These limits were somewhat extended during the year ending 31st March, 1925.\*

The relief to unemployment afforded by these schemes does not appear to have been considerable. It was estimated that, during the first thirty months, the total volume of direct employment provided by the various schemes amounted roughly to 1,500,000 man-months. To deal adequately, however, with the total unemployment this amount of labour should have been provided, not throughout two and a-half years, but every month ; *i.e.* only one-thirtieth of the unemployed were supplied with work under these schemes.

The Ministry of Transport makes grants up to 50 per cent. of the total cost incurred by local authorities in the construction and improvement of roads and bridges, over and above the ordinary programme of maintenance and repair work. The total cost of the 1920-23 programmes (expected to cover several years in some cases) was estimated at approximately £26,000,000, to be borne jointly by the State and the local authorities. Since 1923 additional programmes have been authorised, bringing the total to more than double the above amount.

Under the Ministry of Agriculture, authority has been

**(b) Government Departmental Schemes.** \* For full statistics relating to Government Unemployment Schemes, see *Memorandum on Provision of Work for Relief of Unemployment, 1924* (Cmd. 2196).

given to conduct schemes of land drainage and water supply, while the expenditure on afforestation is being increased. The total cost, however, in 1924-25 was less than £500,000. To relieve unemployment during the winter of 1923-24, the Admiralty, the War Office, the Office of Works and the General Post Office were instructed to undertake work and place contracts at an earlier date than would have been necessary in the ordinary way. Approximately £1,500,000 was spent in this manner.

Under the Trade Facilities Acts of 1921, 1922 and 1924, the Treasury was authorised to guarantee the payment of interest and /or principal of loans, the proceeds of which were to be expended in such a way as to relieve unemployment. The Act of 1924 increased the Exchequer contingent liability from £50,000,000 to £65,00,000. The actual amount in respect of which the Treasury had stated their willingness to give guarantees stood in May, 1924, at a little over £45,000.000.

The Export Credits Scheme aims at stimulating foreign trade. Traders are given facilities to finance their export trade, the Government guaranteeing drafts against shipment of goods exported to approved foreign countries. Though the maximum Exchequer contingent liability stood in June, 1924, at £26,000,000, the amount actually in use or earmarked was only a quarter of this sum. The first three years of the Export Credits Scheme provided the equivalent of merely two or three days of foreign trade, and the relief to unemployment therefore was very small.

The various Government measures just indicated have not provided for more than a very small proportion of the unemployed, and numerous schemes have been proposed from different quarters to cope with the problems. Electrical development,

(c) Trade  
Facilities  
Guaranteed  
Schemes.

(d) Proposed  
Schemes.

for example, finds many supporters, who urge that use should be made of the undisputed water power resources, and propose also that super-power stations should be established in different parts of the country. It is claimed that such electrical schemes would provide work for engineers and other skilled workers, as well as for labourers, and that cheap electric power would be of great benefit to other industries, and, indirectly, would stimulate further employment.

Railway electrification and other developments are also urged. The Government is exhorted to bring pressure to bear upon the railway companies to electrify and recondition their systems, with a view to providing *present* employment on work that will have to be done sooner or later. Other proposals cover the building of houses and schools, more expensive afforestation schemes, increased expenditure on roads and bridges, and the construction and improvement of canals, docks, and harbours throughout the country.

It should be borne in mind, however, that these measures are mainly of an emergency character, and that, while they may help in a small way to alleviate the acute post-war unemployment, they can do little more than touch the surface of the main problem. Treatment of the disease of unemployment must be more radical, if one aims at something more than merely temporary relief.

## CHAPTER XII.

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### CHARITY AND THE POOR LAW.

#### I. PRIVATE AND PUBLIC AID.

Since 1601 there has been a marked change in the principles and methods of poor relief. Then, and for a long time afterwards, there was not the same distinction between private and public relief as there is at the present time. It is now generally recognised that the relief of the poor, at any rate so far as the minimum necessities of life are concerned, should be the concern of the community at large, and that, while voluntary gifts should not be discouraged, they should not be permitted to conceal the obligation of the State to persons in destitution.

The scope of charity is not so restricted as that of the Poor Law. Whereas the Poor Law deals mainly with destitution, charity gives aid of a wider character. Thus charities may be instituted for religious or educational objects, *e.g.* the establishment of scholarship funds. They may be intended for the preservation of character, such as probation and rescue work. Or they may take the form of orphanages and homes, and of welfare institutions for juveniles and adults. They may promote apprenticeship and emigration schemes. The work done by charities in fighting ill-health and disease is enormous. Hospitals, clinics, nursing, assistance for the blind and dumb—these are but a few of the invaluable charitable activities engaged in looking after the life and health of the less fortunate members of the community.

Charitable works of this character are rarely criticised, but there is a certain difference of opinion with regard to the practice of charities in granting direct money relief to the poor. This function runs parallel to that of the Poor Law, and it is contended by many authorities, not only that the duplication is wasteful, but that the less discriminating private relief sometimes creates pauperism, if it does not actually encourage fraud.

Private charities are of two kinds, endowed and contributory. The former kind is largely administered by the Charity Commissioners, first appointed in 1853, who from invested funds distribute over a million pounds annually. The money is handed over to local trustees, who decide on the apportionment in the district. If a locality becomes poorer or richer, the Charity Commissioners have a certain power to add to, or subtract from, the grants. Roughly one-third of the annual sum is expended on almshouses and similar charities. Persons who receive outdoor aid sometimes claim Poor Law relief, either at the same time, or in the intervals between the charitable grants; and overlapping results. Endowed charities, dating back often to the Middle Ages, are more common in cathedral cities than in the modern industrial towns. York, for example, has been said to be "poor because of its charities."

The subscribing charities are of course more varied than those administered by the Charity Commissioners, and the amount spent in relief is appreciably more. Indeed the sum voluntarily subscribed exceeds that spent in normal times by the public authorities in Poor Law relief. About 13 millions were raised in this way in 1921.\* Indiscriminate charity tends to encourage abuse, while genuine needs may

\* About 7 millions from subscriptions, donations, flag-days, etc., 3 millions from interest in investments and 3 millions from legacies.

go unrelieved. In 1869 the Charity Organisation Society was formed for the purpose of co-ordinating and properly distributing privately subscribed funds. The C.O.S. ultimately formed branches or joined with allied societies in over a hundred towns.

The present position is by no means satisfactory. The public should be assured that there is strict economy in administration and that no fraud is permitted. The charges and commissions in raising charitable funds are often excessive. Instances are known in which the proportion taken in this way is as high as 50 per cent. or even more.\* In 1916 the police were given power to control street collecting, but some further supervision seems desirable.

The three main bodies, the Charity Commissioners, the C.O.S. and the Poor Law authorities, are all independent, and only in recent years has there been some attempt at round table conferences and mutual consultation to secure proper co-ordination of relief and the prevention of duplication and abuse. The whole question of private charity was reviewed by the Poor Law Commission of 1909, the Report of which is considered below.

The manner in which poor relief should be administered is subject to a variety of opinion. At least four views can be distinguished :—

**Divergent Views on Private and Public Relief.** (a) *That all relief should be private.* A few persons still maintain that the relief of the poor should be a private function, as it was before 1601, and that the public authority should intervene only in periods of abnormal distress. These people favour relief through the Church or other institutions,

\* D'Aeth, *Financing of Charities*, Contemporary Review, December, 1923.

and propose that the several agencies in each locality should be co-ordinated and centralised so as to avoid overlapping. This view, however, is of no great importance ; the distress consequent on the industrial system, even in times of good trade, could not be adequately met by private relief alone, even if such a method were desirable.

(b) *That private and public authorities should give relief of different kinds.* People who hold this view contend that relief should come from the public authority only to the extent of supplying those in destitution with the absolute necessities of life. Once the fear of starvation has been removed, public relief should cease, leaving any further subvention to private charity. One drawback of such a plan would be the inevitable duplication of functions of the different authorities, with consequent waste of effort and money.

(c) *That private and public authorities should deal with different persons.* It is held by some that an individual should not receive relief from both private charity and the Poor Law. To effect this, a distinction might be drawn between those whose poverty is remediable (*e.g.* the unemployed and the juveniles) and those who cannot hope ever to earn sufficient to maintain themselves and dependants (*e.g.* the aged and infirm). It is proposed that the State should make itself responsible for the first type of poor, and private charity be responsible for the other. Both a curative policy and a separative policy should be pursued. Such a scheme, however, is open to many objections, both on grounds of principle and practicability. The dividing line between the two classes is not always clear, and movement from the curable to the incurable class is unfortunately too easy.

(d) *That all relief should be public.* The double system of relief, whether for different kinds of poverty or for different

persons, would be very difficult and uneconomical to administer, and one thus reaches the fourth view, which would make all relief a public duty. Private charity is a good thing, but it is very haphazard, and in any case does not supply nearly enough to meet the needs. Those who favour public relief (*e.g.* the Minority of the Poor Law Commission) do not object to private help ; but they would use such funds for experimental and developmental purposes, as, for example, cancer research or building of "homes," and not for distribution among the poor in actual cash.

The following arguments have been put forward in favour of domiciliary rather than institutional relief. Firstly, from the humane standpoint, outdoor relief does not interfere with the natural life of the family, and the beneficiaries do not experience the same feeling of disgrace as those who go into an institution. Secondly, from the administrative standpoint, it is easier to discriminate between the requirements of different people, and the amount of relief can be determined in accordance with individual needs. Thirdly, from the financial standpoint, families who are allowed outdoor relief may still earn a certain amount of money, thus rendering full maintenance at public cost unnecessary. A further reason on the ground of economy is that destitution is a variable quantity, and if workhouses were built to accommodate all the destitute in the periods of severe depression, they would be partly empty most of the time, though the establishment expenses would not of course fall in proportion. If, on the other hand, workhouse accommodation were provided only for the average requirements, much hardship would be left unrelieved in periods of depression.

Outdoor or  
Workhouse  
Relief ?

The arguments against outdoor relief are mainly as follows. It is contended, firstly, that inspection and supervision are very difficult, and that misrepresentation may secure benefit for the undeserving at the expense of the deserving ; further, the recipient may be drawing relief from other quarters, unknown to the public authority. Secondly, in accordance with one of the principles of the Act of 1834, relief must have a degree of "unpleasantness;" it is maintained that outdoor relief may be rendered so "pleasant" that the system is abused, and the number of paupers unnecessarily increased. Thirdly, and this is perhaps a more serious objection than the first two, granting of outdoor relief to families, the members of which are already earning something in employment, may have a depressing effect on the rate of wages. An evil of the "Speenhamland" policy of a century ago (*viz.* the granting of outdoor relief in kind based on the size of the family\*) was the advantage taken by many employers to reduce the rates of pay, realising that the workers' opposition would be weakened by the knowledge that their income would be made up at public expense. A fourth argument given in favour of indoor relief is that old people can frequently be better looked after in an institution than in their own homes.

On the whole the advantages of outdoor relief would seem to outweigh the disadvantages, at any rate as long as the institutional relief exemplified by the English workhouse system is retained. Almshouses, whether of the type found in this country or of the American kind, are in many ways superior to, and more humane than, workhouses. But in most respects outdoor relief appears to be the more desirable, unless conditions definitely necessitate indoor treatment.

\* See below, p. 298.

Statistics regarding conditions of unemployment and destitution are derived mainly from the following sources :—

Sources of Information.

(a) *Trade union returns.* These are valuable only to a certain extent as the trade union movement does not include all the wage-earners in the country, women workers especially being but partly organised. As the movement increases its membership, however, the returns will become more representative of general conditions. But these statistics do not correctly indicate the degree of distress, partly because of the variation in the benefits and subventions, partly because distress among home-workers, juveniles, and the aged does not figure in the returns, and also because the figures do not cover under-employment where a system of short time is practised.

(b) *Unemployment insurance returns.* Since the extension of unemployment insurance in 1920 to twelve million wage-earners, most useful information has been afforded by the official reports. The statistics are not complete, however, for certain occupations are not covered by the scheme.\*

(c) *Employment exchanges.* These provide a fairly good index, especially in connection with the casual trades. The returns show that about 50 per cent. of the applicants for employment come from (i) occupations designated under the heading of "roads, seas and rivers," (ii) general labourers and (iii) commercial classes (mainly clerks). It is among these occupations that most distress is as a rule to be found. According to the 1911 Census, out of 11½ million workers, about 1½ million were found in these three classes, *i.e.* 86 per cent. of the workers were in the comparatively regular

\* See Ch. XIII.

occupations, 14 per cent. yielding about a half of the employment exchange figures. Most of the casual labourers were found in urban districts, especially at the ports. London, out of 1,404,000 male workers, had over 20 per cent. among the casual workers, Liverpool 34 per cent., and Bristol 22 per cent. Casual employment is a serious problem, not confining its influence to the workers immediately concerned, but tending to depress conditions of employment in many other trades. Booth stated that the casual worker was the crux of the whole problem, and Beveridge writing nearly thirty years later confirmed his view.\*

(d) *Distress committees.*† A certain amount of information is supplied from this source, but, as the activities of these bodies are very limited, the data are not altogether representative. These committees appear to have been more common in London than elsewhere. With the development of other and more useful agencies during the last few years, the relative importance of distress committees has declined.

(e) *Pauperism returns.* Statistics as to relief afforded under the Poor Law are very useful, so long as conclusions are not too hastily made. Thus, as shown in Ch. II., there was a decline during the fifty years before the war of over 50 per cent. in the number of paupers receiving outdoor relief, but this drop is explained very largely by the increased stringency of the regulations and the provision of new forms of relief outside the Poor Law, such as old age pensions and the feeding of necessitous school-children. The statistics on the opposite page, especially those in columns (5) and (6), are significant.

\* Beveridge, *Unemployment*, Ch. V.

† Set up in accordance with the Unemployed Workmen's Act, 1905.

**PERSONS IN RECEIPT OF POOR-LAW RELIEF IN  
ENGLAND AND WALES.\***

Year.	Number of persons in receipt of—			Proportion per cent. of the total number of persons entered in col. 4 who were in receipt of—	
	Institutional relief.	Domiciliary relief.	Total.	Institutional relief.	Domiciliary relief.
I	2	3	4	5	6
End of Dec.					
1883	186,000	528,704	714,704	26·0	74·0
1893	208,731	519,950	728,658	28·6	71·4
1903	237,765	506,893	744,658	31·9	68·1
1910	288,946	513,242	802,188	36·0	64·0
1911	278,298	392,596	670,894	41·5	58·5
1912	274,215	389,947	664,162	41·3	58·7
1913	261,781	370,461	632,242	41·4	58·6
1914	257,432	378,608	636,040	40·5	59·5
1915	226,096	340,242	566,338	39·9	60·1
1916	215,281	305,956	521,237	41·3	58·7
1917	198,593	281,887	480,480	41·3	58·7
1918	182,378	273,369	455,747	40·0	60·0
1919	187,853	295,295	483,148	38·9	61·1
1920	199,846	368,063	567,909	35·2	64·8
1921	217,485	1,158,497	1,375,982	15·8	84·2
1922	219,046	1,186,982	1,406,028	15·6	84·4
1923	220,993	1,019,730	1,240,723	17·8	82·2
1924	216,835	855,110	1,071,945	20·2	79·8

It is seen from this table that the total number of persons in receipt of public relief declined between 1883 and 1920, following which the heavy depression caused an abnormal amount of destitution. Until the war the proportion receiving institutional relief was increasing, but after the war there was a decline in proportion (though the actual number remained fairly constant). The statistics of domiciliary relief do not, of course, include benefits, covenanted or uncovenanted, under the Unemployment Insurance Scheme.

\* Quarterly Statement, December 1924.

## 2. DEVELOPMENT OF THE POOR LAW.\*

A knowledge of the history of the Poor Law is essential to a thorough comprehension of the present position of public aid. The record of Poor Law administration gives the social student an insight, not only into the practice of poor relief, but also into the social conditions and experiments of the periods under review. It is true that economic conditions are constantly changing and that programmes that are applicable to one period might be altogether inapplicable to another. Nevertheless, three centuries' experience of the Poor Law is very instructive to the present day reformer, in telling him not merely what to do, but also (which is just as important) what not to do. The history of the Poor Law is, like all histories, a record of good and bad. Especially does it warn us of the fallacies as to the nature of poverty and the method of poor relief. These fallacies have been responsible for much harshness and abuse in past administration. Many reforms have been carried out in the last few decades, but the stage has been reached when a more vital decision has to be made. The question now is not so much whether the Poor Law should be further reformed, but whether it should not be entirely abolished.

Inquiry into the practice of poor relief can be carried, if necessary, as far back as Saxon times, when

**Poor Relief**                   “landless” men were expected to be pro-  
**before 1601 :**               vided for by their kinsmen or master. While  
**Dependence**               the manorial system existed, however, the  
**on the Church.**           poverty question was not important, for it  
 was comparatively easy for a man to obtain land or to

\* It is only possible here to give the barest outline of the history of the Poor Law. For a full account see Nicholls and Mackay, *A History of the English Poor Law*, (1912), and Webb, *English Poor Law Policy*, (1910).

secure employment on the land. With the break-up of the manorial system many men lost their holdings, while those who threw off the yoke of villeinage were not always in an enviable position, for freedom was often accompanied by destitution. The substitution of "contract" for "status" did not in all cases mean an improved economic condition. The wage-earners were often as badly off, so far as their material income was concerned, as when they had been in serfdom; sometimes they were even in a worse position. In the towns, a certain amount of poor relief was afforded by the gilds to those members who had fallen on evil times.

In 1348 the Black Death swept away about a third of the population. The workers who were left took advantage of the shortage of labour and demanded better wages. The Statute of Labourers of 1349 was one of the earliest enactments dealing with labour conditions. It ordered the workers to serve under any master who might require them, and to be paid at the rate customary in the year before the Black Death (though prices had risen in the meantime). Severe penalties were to be imposed on workers who, in the opinion of the legislators, took unfair advantage of their position. The Statute was not successful, however, partly because the landlords were so anxious to obtain labour that they themselves were willing to pay more than the prescribed rates, but mainly because the workers, in spite of the penalties, refused to bend under the repressive policy. Many other Statutes were passed in a vain attempt to settle the problem.

The Act of 1388 is specially notable in that for the first time "the poor" are referred to as a distinct class, and that the "valiant beggar" is separated from the "beggar impotent to serve." The townspeople were expected to provide for the needy poor. During the next two centuries

the problem of poverty became more acute, due largely to the enclosure movement and the increase in the number of landless men, and, in a smaller degree, to the disbandment of soldiers after the numerous wars, and to the rise in prices following the debasement of the coinage.

It was assumed throughout this period that the able-bodied pauper could find work if he wished, and that his poverty was a clear proof of his laziness. While it was doubtless easier, in those days, for an unemployed person to secure work than it has been since the rise of the specialised factory system, the extremely harsh attitude of the legislators of the early sixteenth century cannot be justified. Thus, in 1530, able-bodied men or women found begging, or without settled occupation, were to be "tied to the end of a cart naked, and be beaten with whips . . . till his or her body be bloody by reason of such whipping." Such was the "social policy" of the time. Six years later Henry VIII. broke away from Rome, and followed this up by suppressing a large number of abbeys and monasteries. The religious houses had relieved distress among the poor, and their closing down was followed by an increase in vagabondage. To say, however, that the suppression of the monasteries was a *cause* of poverty is not correct; the poverty had been there before, but had been relieved by these religious bodies. This source of relief having been considerably reduced, the number of persons seeking aid elsewhere increased in proportion.

The legislators still pursued a savage policy. In 1547 there was passed what is probably the cruellest Act on the Statute Book. Able-bodied vagabonds were to be branded with the letter V and to be the property for two years of any master who required them, their food to consist of bread and water and refuse meat. Attempt to escape within the two years was to be punished by branding with the letter S

and condemnation to slavery for life. A further attempt to run away was to be punished with death. Provision was made, however, for children in vagabondage to be taken by any persons who promised to bring them up in some honest labour. Money for the relief of the aged and infirm was still to be voluntarily subscribed. The curate of every church was enjoined to exhort his parishioners to contribute according to their means. This Act did not reduce the extent of poverty, and two years later it was repealed.

In 1551 it was enacted that in every town a book be kept containing the names of householders and impotent poor. The citizens were to appoint two or more "collectors" of alms which were to be distributed weekly among the poor. People refusing to contribute were to be exhorted by the parson and churchwardens, and, if no impression was made, were to be taken before the bishop. But it was found that even a bishop might fail to elicit a voluntary contribution.

In Elizabeth's reign distinct progress was made. The Statute of Artificers, 1563, extended the apprenticeship system, thus adopting a more radical policy and so preventing much poverty in later years. It enacted, among other things, that labourers were to be hired for at least a year at a time. Other clauses gave Justices of the Peace the power to assess rates of wages. (These were to be actual, not minimum, rates.) In the same year compulsory assessment was introduced for the first time. The bishop being unsuccessful in his exhortation, an uncharitable person could be brought before the justices, who would make a levy on him according to his means, and who had the power, should he refuse, to commit him to prison. Sundry other acts were passed in this reign, such as that relating to the reform of the currency, the appointment of overseers of the poor, and the building of habitations for the aged.

It is not necessary to describe the legislation, as it was for the most part re-stated in the great consolidating Act of 1601.

The Act of 1601 marked a distinct change from the earlier repressive policy, and definitely established the compulsory assessment for the relief of the poor. Overseers of the poor were to be appointed in every town, and were to consist of the churchwardens and two to four householders. They were to raise by taxation from the inhabitants sufficient money for the following purposes :—

**The Poor Law from 1601 to 1834.**

- (i) " For setting to work the children of all such whose parents shall not be thought able to keep and maintain them."
- (ii) " For setting to work all such persons, married and unmarried, having no means to maintain them, and who use no ordinary and daily trade of life to get their living by."
- (iii) " For providing a convenient stock of flax, hemp, wool, thread, iron and other ware and stuff to set the poor to work."
- (iv) " For the necessary relief of the lame, impotent, old, blind and such other among them being poor and not able to work."

It was also provided that able-bodied persons who would not work should suffer certain penalties.

It will be seen from this that an attempt was made to deal with the three principal kinds of poor :—(a) Those who cannot work, by reason of age or infirmity, (b) those who are in search of work, but cannot secure employment, *i.e.* the unemployed, and (c) those who are able to work and are offered employment but refuse to take it. The first class were given relief, the children being trained under proper protection. The second class were to be helped by

being set to work as indicated above. The third class were to be punished. The Act of 1601, with certain modifications, governed the practice of public assistance until 1834.

The intervening measures may be shortly indicated. In 1662 the Law of Settlement was passed, with a view to giving protection to London and the large towns. It was laid down that poor settlers in a parish could, within a period of forty days from arriving, be removed to the parish where they had last been settled for not less than forty days. This Act was objectionable in that it benefited the large towns at the expense of the rest of the country, and also in that it imposed a serious restriction on the mobility of labour. The period of forty days was subsequently extended. In 1691 magistrates were given controlling powers over the overseers.

In 1723 parishes were authorised to join in "unions" to establish workhouses. The principle of the "workhouse test," *i.e.* the power to refuse relief to persons who were unwilling to enter the institution, was established. Parishes were permitted to hand over the administration of the workhouses to private contractors, and the inevitable abuse resulted. Many of the poor who were "farmed out" suffered cruelty and semi-starvation. It was not until 1790 that any attempt was made to remedy this evil. Visitation was instituted and certain restrictions were imposed on the contractor, but the principle of farming the poor was still apparently upheld.

Industrial and agricultural changes at this time were responsible for much dislocation and distress. While the wealth of the country as a whole vastly increased, its distribution remained very unequal. A change in public policy resulted in "Gilbert's Act" of 1782, whereby the workhouse test could be set aside, thus making possible outdoor

relief for the able-bodied. Power was given to the parishes to combine voluntarily into unions, in each of which a workhouse could be built for the maintenance of the old and infirm. In 1795 the Law of Settlement of 1662 was repealed, though it was still made possible to remove persons to their previous parish once they had sought public relief.

In the same year the famous "Speenhamland" decision was made. The justices of Speenhamland, in Berkshire, decided to give relief in aid of wages in proportion to the price of wheat and to the number in the family. This "bread scale," though not the first, was adopted by other parishes throughout the country. The policy was confirmed in the Act of 1796. The workhouse test was repealed. But, despite the humanity which was partly responsible for these measures, the Speenhamland policy gave rise to abuse. Men whose wages were already at or below subsistence level found that their income would, in view of the grants, be little affected if they did not work at all. The policy was thus conducive to demoralisation. But more serious was the advantage taken of the Speenhamland policy by the employers. They knew that a man's resistance to a wage reduction would be undermined by the fact that he would automatically have his income made up out of the rates; consequently wages began to drop. Some parish authorities went so far as to suggest that wages should be abolished and that the worker be paid out of the poor rate!

Expenditure on poor relief had greatly increased during the latter years of the eighteenth century, and, with the Speenhamland policy, the dislocation caused by the enclosure of common land, the extended use of labour-saving machinery, and the distress following the Napoleonic wars,

The Poor  
Law from  
1834 to 1909.

the burden on the rates became heavier than ever. The sum spent on poor relief per head of population increased five or six fold between 1750 and 1832. In the latter year a Royal Commission was appointed to inquire into the operation of the Poor Law, and make proposals for reform. After investigation the Commissioners made the following recommendations, which were immediately carried into effect by the Act of 1834 :—

- (a) The transfer of control to a Central Board, which was to have considerable powers over local guardians, who were to be directly elected by the rate-payers.
- (b) The formation of Unions of parishes in order to provide a common workhouse for the district, the parishes to contribute to the upkeep in proportion to the number of its paupers.
- (c) The re-introduction of the workhouse test for the able-bodied.
- (d) The abolition of settlements except by birth, or by marriage in the case of women, or by parentage in the case of children.

The principle was definitely laid down that the relief granted should not be such as to make pauperism preferable to wage-earning, *i.e.*, that the amount should not exceed the income of the poorest paid labourer.

In 1847 the Poor Law Board was constituted, and it supervised the administration of public relief until 1871, when its place was taken by the Local Government Board, which was formed largely in order to strengthen the powers over local authorities. This Board remained in existence until 1919, when the Ministry of Health was created in order to consolidate the functions of the Local Government Board together with those of several minor bodies.

The Act of 1834 is still the basis of Poor Law policy.

Though this Act undoubtedly improved the administration of poor relief at the time, subsequent developments have conspired to make the provisions either inoperative or extremely harsh. The machinery set up in 1834 is in many ways obsolete, and for the last twenty or thirty years there has been urgent call for reform.

In 1905 the Royal Commission on the Poor Laws and Relief of Distress was appointed to inquire into the working of the whole system, to investigate the methods adopted supplementary to the Poor Law, and to report upon alterations thought desirable. The inquiry that followed was most thorough, lasting over three years. Evidence was taken orally and in writing from nearly fifteen hundred persons, and special investigators were appointed to study particular problems.

The Commissioners stated that pauperism was as prevalent as it had been in 1871, and showed that it moved in cycles in a similar way to employment. The turning point of the pauperism cycle came a year or two later than that of the employment cycle, *i.e.* it took as a rule between one and two years for the unemployed to use up all their reserves and sell up their homes before they entered the ranks of the legally destitute. On the average nearly three-quarters of a million people were receiving relief throughout the period of forty years.

But while the number of paupers remained fairly constant, the amount spent on poor relief had more than doubled. In 1833-4 it had been a little over six millions; in 1905-6 it was over fourteen millions. (The population, however, had so increased that the cost per head fell from 8s. 10d. to 8s. 3d.)

The Commissioners were dissatisfied with the work of

the average Guardian, and with the apathy of the rate-payers in Poor Law elections. They condemned the wasteful overlapping and mismanagement, and also the lack of uniformity of practice as between the different Boards of Guardians.

The Commissioners were agreed that the institutional treatment of the poor was not satisfactory. About a third of the total number of paupers were treated in institutions, but there was no proper classification within the walls. The policy varied with different local authorities. The same institution might include the aged and the young, the mentally deficient and those of the criminal class. Some authorities kept children in "cottage homes" and similar institutions, while others grouped all classes indiscriminately in the workhouse. The main reason given for the lack of separate treatment was that the area was too limited; if the district from which the poor were drawn could be extended, it would be more possible to discriminate between, and provide accordingly for, the several classes.

With regard to outdoor relief (about two-thirds of the total), it was recognised that supervision was inadequate, while the existence of many private charities caused a certain amount of confusion. Further, the absence of uniformity in the standards of relief was emphasised. Some unions imposed stringent regulations while others were comparatively generous. One district would be highly rented and therefore highly rated; another district the reverse. One parish might have a very large proportion of the poorer classes and a large number of paupers to maintain, while another parish might have a relatively large proportion of the well-to-do yet only a small number of paupers to maintain. This discrepancy is very notable in London where the wealthy parishes in the West-End

have a lower burden per head than the poorer parishes in the East End.\*

The Commissioners were unanimous on some points, but of widely divergent opinions on others. The unanimous recommendations, the proposals of the Majority and of the Minority, and the extent to which the several suggestions have been adopted, may be briefly outlined.

The unanimous recommendations were :—

(a) That the Boards of Guardians be abolished, and that  
**Unanimous** the area of administration be enlarged from  
**Recom-** the Union to the County and County  
**mendations.** Borough. This proposal was included in the Ministry of Health Bill, 1920, which passed the Commons but was defeated in the Upper Chamber.

\* The following table shows the unequal incidence of the burden in different parts of England and Wales. The actual figures relate to an abnormal period, but the proportions are very instructive.

*Number in receipt of relief on June 30, 1923, in certain districts.  
 Per 1,000 of population.*

London—Kensington ..	13·5	Birmingham .. ..	54·3
Westminster .. ..	25·0	Lincoln .. ..	64·1
Hampstead .. ..	9·6	Barrow-in-Furness ..	115·1
Shoreditch .. ..	81·0	Preston .. ..	8·9
Limehouse .. ..	99·3	Liverpool (W. Derby	
Poplar .. ..	191·9	Union) .. ..	62·1
Bermondsey .. ..	121·6	Sheffield .. ..	109·9
All London .. ..	49·8	Middlesbrough .. ..	88·6
Kingston (Surrey) ..	13·6	South Shields .. ..	115·5
Battle (Sussex) .. ..	9·1	Hartlepool .. ..	67·1
Headington (Oxford) ..	4·9	Stockton .. ..	92·8
Luton (Beds) .. ..	13·0	Newcastle-on-Tyne ..	106·8
Ipswich .. ..	65·0	Merthyr Tydfil .. ..	59·9
Cornwall (all Unions) ..	26·6	Pontypridd .. ..	65·7
Shropshire (all Unions)	15·3		—
Walsall .. ..	65·4	Total (England and	
		Wales) .. ..	33·3

(b) That institutions be of the classified and not of the mixed type. This proposal was partly met by the Poor Law Institution Order, 1913, which provided for a certain amount of separation according to age, character and sickness.

(c) That the different charities endowed and voluntary be organised, in order to avoid friction and overlapping. In 1919 the National Council of Social Service was formed to deal with this and other defects, and over 40 provincial branches have been set up.\* Proper co-ordination, however, is still lacking.

(d) That the administration of out-relief be improved ; that relief should be given only after proper inquiry and supervision, but that it be adequate to meet the needs, and that voluntary agencies should be employed where personal care of individual cases is desirable.

(e) That children be removed from workhouses. This has been partly effected by the Poor Law Institutions Order, 1913, which laid down that children between the ages of three and sixteen, not under medical treatment, cannot be retained in adult institutions for a period exceeding six weeks.

(f) That Old Age Pensions be provided. These pensions were first granted by the Act of 1908.

(g) That Labour Exchanges be established. These were set up under the Act of 1909.

(h) That a scheme of State Insurance against sickness and unemployment be instituted. This too has been provided by the several Insurance Acts commencing in 1911.†

(i) That central control be strengthened and extended. As stated above, the Ministry of Health in 1919 replaced the Local Government Board, securing added powers.

\* See Clarke, *Social Administration, including the Poor Laws*, pp. 170-172.

† See Ch. XIII.

Fourteen Commissioners made the following recommendations in addition to those just indicated.

**Majority Recommendations.** (a) That the Boards of Guardians be replaced by Public Assistance Authorities, which should be co-extensive with a County or County Borough, half the number to be appointed from the County or County Borough, the other half to be appointed by the council from outside their number. These councils should be for administrative purposes only. No action has been taken to meet this recommendation.

(b) That Public Assistance Committees be set up for the smaller urban and rural districts, to deal directly with the applicants for relief. No action has been taken.

(c) That Voluntary Aid Councils be created in connection with (a), and Voluntary Aid Committees in connection with (b), for the purposes of supervision, and of acting as intermediaries between public assistance and private charity. No parliamentary action has yet been taken on these lines.

(d) That County and Local Medical Assistance Committees be created, to provide medical relief on a provident basis. This recommendation has not been adopted.

(e) That outdoor relief, while adequate to needs, be subject to thorough investigation and supervision. The conditions imposed by the Relief Regulation Order, 1911, largely meet this recommendation.\*

Four Commissioners submitted the following proposals:—

(a) That necessitous non-able-bodied persons be dealt with by the appropriate committees of the County and County Borough councils, and therefore not come within the Poor Law. Children should be provided for by the Education Committee; the sick and incapacitated,

**Minority Recommendations.**

\* For the principles and methods of indoor and outdoor relief, and the various Orders, see Clarke, *op. cit.* Chapters, VIII.-X.

the infants under school age, and the aged needing institutional care, by the Health Committee; the mentally defective by the Asylums Committee; the aged by the Pensions Committee. The several committees should be under the supervision of the corresponding Government Department. These recommendations have been met to a limited extent; necessitous schoolchildren may be given meals (though this practice was temporarily restricted during the post-war so-called "economy" campaign); the Mental Deficiency Act of 1913 required the Boards of Guardians to make suitable provision for the mentally defective; while Old Age Pensions satisfy to some extent the requirements of the Minority.

(b) That the necessitous able-bodied be dealt with by a special authority, and that in order to reduce unemployment the labour market should be organised by a Ministry of Labour; in order to minimise the unemployment caused by cyclical fluctuations the Government should institute a ten-year programme of public work (of at least forty million pounds for the decade), the work to be given out exclusively in the years of depression. It was further proposed that the unabsorbed surplus of unemployed should be maintained at public expense, and when desirable trained for alternative occupation.

These recommendations have not so far been adopted, except for the establishment of the Ministry of Labour in 1916, and the special schemes for the training of ex-service men.

(c) That Registrars of Public Assistance be appointed in Counties and County Boroughs for the purpose of keeping a register of those receiving public relief, and for preventing the overlapping of functions. No action has been taken in this connection.

In short, the Minority virtually disputed the necessity for any Poor Law at all. The non-able-bodied poor could be dealt with by the appropriate authorities outside the Poor Law. Unemployment was said to be the dominant factor making for distress among the able-bodied, and, to prevent this, special machinery should be set up. The Poor Law should, in effect, be dispensed with. Prevention rather than mere relief should be the principle to be followed in the future.

The extent to which the several recommendations of the Majority and the Minority of the Royal Commission of 1909 were adopted has been shortly indicated in the preceding paragraphs. It is evident, to judge from subsequent developments, that the Minority Report made the greater impression on the legislators.

All the Commissioners were in favour of abolishing the Boards of Guardians and enlarging the area of administration from the Union to the county and county borough. The Maclean Report of 1918\* supported this proposal. It urged that the responsibility for the administration of services from local rates should rest with one authority in each area; that the local authority should take over the duties of public aid; that the general mixed workhouse should be abolished; that a "Home Assistance Committee" should be set up in each area for the purpose of making inquiries into the circumstances of applicants for home assistance and also for general supervision and administration; and that the provision for the sick and infirm should be the function of the Public Health Committee of the local authority, the provision for children

\* Report of the Local Government Sub-Committee of the Ministry of Reconstruction, 1918.

should be made by the Education Committee, and the provision for the mentally unsound by the Asylums Committee.

Thus the Maclean Report endorsed the main recommendations of the Minority of the Poor Law Commission, though it did not altogether disregard the proposals of the Majority. The Report is significant in that it conciliated to a large extent the supporters of the Majority and the Minority, and demanded without party distinction the disappearance of the Boards of Guardians and therefore the virtual abolition of the Poor Law. The post-war depression showed up the defects of the existing Poor Law machinery. Some Boards gave assistance without any "test," adopting scales of relief based on the number of dependants. Others refused to give out-door relief to able-bodied persons at all. Others, again, declined to accept a definite scale of relief, and in some cases refused relief to those in receipt of unemployment benefit.\*

The rise during the last fifteen years of a system of State insurance against unemployment and ill-health has brought further complications. Social insurance (which is the subject of the following chapter) is admitted in all quarters to be immeasurably superior to the antiquated system of Poor Law relief. Not only is it more efficient and equitable, but it savours less of charity and does much to remove the stigma of pauperism. But while the two methods are operating side by side, overlapping of functions and duplication of machinery and expenditure would appear inevitable. If the scheme of social insurance is to be made more comprehensive than it is at present—and the signs point in that direction—then the need for the abolition of the Poor Law is further emphasised. So far, the recommendations of the Maclean Committee have not

\* Cf. Annual Reports of the Ministry of Health.

been adopted,\* but it cannot be long before the Boards of Guardians, despite the sincerity and sympathy of the individual members, are supplanted by a more uniform, serviceable and humane system of relief.

**Survey of  
Changes in  
Poor Law  
Policy.** This rapid survey of the history of the Poor Law indicates the changes that have come about in outlook and policy on the part of the public authorities. At one time destitution was practically regarded as a crime, and severe punitive measures were employed in a vain attempt to cope with the problem. Whipping and branding proved to be no remedy at all, and the "Old" Poor Law of 1601 showed public policy to have been educated to the point of distinguishing between the different types of poverty; the impotent, the aged and the young were given more humane and lenient treatment than that meted out to the able-bodied.

The Elizabethan policy, with certain alterations, was pursued for over a hundred years and with a considerable measure of success. With the agricultural and industrial changes of the eighteenth century, however, poverty became more acute, and the established methods of poor relief were found sorely inadequate. It was now recognised that an able-bodied man might become unemployed through no fault of his own, that idleness was not necessarily synonymous with laziness. The abolition of the work-house test together with the adoption of the Speenhamland policy of "bread scales" caused a temporary departure from the Elizabethan code, but with the continuance of the enclosure movement, the extension of the factory system, and the dislocation following the Napoleonic Wars,

\* The Ministry of Health Bill, 1920, was intended to give effect to some of the recommendations in the Maclean Report, but it was defeated in the House of Lords.

the situation grew worse. Eventually the "New" Poor Law of 1834 tightened up the system, and for a time the administration and methods of public assistance were more efficient.

Until then, and for many years afterwards, the authorities were concerned merely with the question of dealing with poverty once it became manifest. It was not until the last decades of the nineteenth century that writers seriously began to inquire into the essential nature of the problem with a view to the prevention as well as the relief of poverty. The submissive acceptance of the evil gave place to an enlightened dissatisfaction with the social organisation. Study was now given to such questions as the causes of unemployment, the nature of casual employment, the consequences of the wages system, the environment of the worker, and the many other factors that contribute directly or otherwise to the evil of destitution. The Minority Report of 1909 and the Maclean Report of 1918 illustrate the change in outlook. Reformers of the nineteenth century were content with piece-meal adjustments of Poor Law methods, never contemplating that the very basis of the administration might be unsound. The devastating criticism that has been levelled during recent years at the whole system of Poor Law relief, and the sounder and more constructive alternatives of prevention and insurance that have been submitted, and to a limited extent already accepted, lead one to assume that the entire abandonment of the Poor Law system cannot be long delayed.

## CHAPTER XIII.

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### SOCIAL INSURANCE.

**Nature and  
Extent of  
Social  
Insurance.** Insurance involves the setting aside of sums of money in order to provide compensation against loss resulting from particular emergencies. The contingency is expected to affect only a certain proportion of the number insured, and the participants in the scheme are able, therefore, by paying a comparatively small sum into the fund, to guarantee themselves against heavy financial loss. For example, it is found from experience that a fairly constant percentage of shop windows is broken per annum, and insurance companies are able with a great degree of accuracy to adjust the premiums against this form of loss, spreading the risk over a large number of persons. The same applies to the risk of fire and burglary, an individual being safeguarded against these contingencies by a relatively small annual payment.

Life insurance (which is but a euphemism for death insurance) is conducted on similar principles. It is known from analysis of vital statistics for many years that of a given number of people a certain percentage will die in a given period. If the chances are (say) 99 to 1 against a particular emergency, which involves the loss of (say) £1000, the risk can be insured against by 100 people each contributing £10, *plus* whatever sum is required for administration. Actuarial science has made such progress that there is scarcely any contingency against which it is not possible to

effect some insurance. Policies are now issued, not only against such common contingencies as death, fire, burglary, etc., but against rain during an open-air fête or during one's summer holidays, and even against the return of a parliamentary candidate at a by-election.

Social Insurance is usually taken to mean that form of insurance which guarantees an individual against exigencies which reduce his earning capacity or increase his expenditure beyond the normal. Such contingencies arise out of (1) temporary inability to make a living, (2) permanent incapacity, and (3) death. Under (1) come unemployment, sickness, accidents, etc.; under (2) come disablement, chronic illness, old age, etc.; and under (3) come widowhood and orphanhood. All these have been proved to be insurable risks, but some branches have been more fully developed than others. In some cases the State has shouldered the responsibility for the scheme; in others the service has been left entirely to private enterprise.

The following table\* shows the amounts estimated to have been spent on Social Insurance in this country in 1922.

	£
Old Age Pensions .. ..	22,500,000
Health, Maternity and Disablement Insurance ..	29,000,000
Unemployment Insurance ..	60,000,000
Workmen's Compensation ..	12,000,000
Burial Insurance .. ..	35,000,000
	<hr/>
	158,500,000†
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\* Taken from Cohen, *Social Insurance Unified* (1924), p. 26.

† From January, 1926, there must be added to the above figures the payments in respect of Widows', Orphans', and Old Age Contributory Pensions.

It is true that 1922 was an exceptional year, and that the expenditure on Unemployment Insurance was abnormally high. On the other hand the above table does not include £38,000,000 spent under the Poor Law, nor £57,000,000 disbursed by the trade unions and friendly societies. And if one included the sums spent by the State and other bodies on pensions of different kinds, and reckoned the sums deposited by the workers with the savings banks, co-operative societies and building societies, purely as a provision against times of need, the grand total would not, it is estimated, fall far short of £500,000,000.\*

In this chapter the different forms of Social Insurance in this country are briefly surveyed. Most space is devoted to Unemployment Insurance, not so much because it entails the largest expenditure at the present time, but because the general principles discussed in connection with it apply, in greater or less degree, to all the other branches of the main subject.

One sometimes comes across the contention that wage-earners should put aside a certain proportion of their income in order that when the "rainy day" arrives they will be independent of help from the State or other authority. It is claimed that such a policy would prevent degradation and demoralisation.

The proposal that savings should take the place of insurance, however, is a mere counsel of perfection. It assumes, what is unfortunately too rarely the case, that the workers have sufficient wages during employment to permit of the necessary balance being put aside. As a rule, it is the best-paid workers who are most regularly employed, while it is those who receive little above a subsistence income who are most liable to unemployment. And, though

\* *Ibid.*, p. 27.

it is known that a certain number of workmen will sooner or later be out of employment, or be in distress through any of the other contingencies mentioned above, the average individual is sufficiently optimistic to think that *he* will not be affected, and tends, therefore, to take too little precaution.

A second defect of the policy of savings is the difficulty, even the impossibility, of estimating how much ought to be saved. Unemployment in the aggregate may be predicted with a certain degree of accuracy, but estimates as far as the individual is concerned must be allowed a wide margin of error. If the worker's income during employment were adequate to secure a decent standard of life and a little over, it would not matter seriously if the estimate of the sum to be set aside turned out to be incorrect. But if the wage were barely above subsistence level, there is the danger that any saving would be at the cost of health and efficiency. Saving is only economical so long as the sources of the income are not impaired ; when it is effected at the expense of productive capacity, there is a net loss. Further, if *every* worker saved sufficient to maintain himself and dependants in the event of unemployment, there would be far too much saved in the aggregate for this particular purpose, for, as was shown in the chapter on unemployment, fifteen-sixteenths of the wage-earners are still in employment when trade depression is at its worst.\*

Finally, it is often objected, the dependence on savings alone to provide against distress in time of unemployment throws the burden on the wrong shoulders ; little as the employers contribute in the present insurance scheme, they

\* This does not apply, of course, to the abnormal conditions following a war ; even the most sanguine of the advocates of saving cannot expect the workers to forecast and sufficiently provide against such a contingency as this.

would evade altogether their obligations if savings were exclusively relied upon. The cause of unemployment is very rarely an individual one, the responsibility resting, in the vast majority of cases, on circumstances beyond the worker's control. The provision of means to guard against the consequent distress is claimed to be a social, rather than an individual, function.

Private savings are not therefore a proper safeguard, partly because most workers' incomes are insufficient, partly because, even if they were sufficient, too much would be saved in the aggregate to meet the distress, and lastly because the incidence of the burden would not thereby be equitably distributed among the several classes of the community.\*

The contention, once common, that it is undesirable to insure against unemployment is rarely met with at the present time, the change in opinion being due largely to the successful experience of the scheme in Britain during the last few years. If criticism of the scheme is to receive serious attention, it must be accompanied by alternative proposals for coping with the main problem. Insurance benefits do relieve distress, and destructive criticism without constructive proposals is of little service. The few critics who question the advisability of insurance fall mainly into two classes, and view the subject from opposed standpoints. One class objects that insurance demoralises, that the receipt of benefits tends to destroy a man's self-respect. But benefits in a properly adminis-

\* Some writers have proposed compulsory savings as a means of coping with distress, but such a scheme is open to other objections besides those mentioned above. A German writer, Prof. Schanz, has drawn up a scheme of this kind. For criticism, see Cohen, *Insurance Against Unemployment*, pp. 58-9.

tered scheme are not really gratuitous, but are payments to which the recipient, by the very nature of insurance, is rightfully entitled. Savings are frequently suggested by these critics as an alternative, but, as already shown, little dependence can be placed on this form of provision.

A similar type of critic maintains that the system tends to encourage fraudulence, that benefits might be paid to those who are not *bona fide* unemployed. But the criticism either ignores or under-rates the efficacy of the unemployment test, which is always a condition of granting benefits. If an applicant is offered suitable work at the standard rate of pay, and he refuses it, his benefit is liable to lapse.

The other class of critic deems unemployment insurance undesirable on the ground that it does not go far enough, that it is merely a palliative, whereas more fundamental measures ought to be applied. It is submitted that an insurance scheme not only fails to cure unemployment ("insurance does not prevent" \*), but that, by affording superficial relief, it hinders the application of a real remedy. The cure proposed varies from mild reformatory measures to thorough-going Socialist schemes.

Both sets of critics are usually agreed upon the alleged costliness of the insurance plan, though again their viewpoints are entirely different. The one class objects simply to the spending of public money. The other class contends that the State ought not to be afraid of spending more—but it should not be in the manner of insurance subsidies. The Socialist submits that the maintenance of the unemployed should be a national obligation, and that the necessary money should be supplied out of State revenue, provided that the scheme be coupled with "at least an elaborate social machinery for actually preventing the occurrence of the contingencies insured against, and for

\* Webb : *Prevention of Destitution*, p. 160.

bringing them, in each case, as quickly as possible to an end."\* Unemployment insurance is said to be undesirable not only because it is an unsound principle to work upon, but because the cost of conducting such a scheme is excessive.

One further criticism may be noted. It has been alleged that a system of insurance against unemployment tends to reduce whatever sense of responsibility the employers previously felt towards their workers. Instead of being averse from dismissing their men on the approach of difficult times, the employers, it is suggested, will be impelled to dismiss them at the first sign of depression. While this tendency may exist, its importance should not be overestimated. A manufacturer does not, as a rule, employ men if it is not worth his while; and he will not dismiss men while they are in the least degree profitable to him.†

Until recently, the practicability of Unemployment Insurance was doubted by many eminent authorities. Unemployment was not regarded as an "insurable risk."‡

**The Practicability of Unemployment Insurance.** Mr. J. L. Cohen gives four requisites that a contingency must satisfy before insurance principles can be applied to it:

"(a) There must be a risk whose nature must be clearly specified.

\* *Ibid.*, p. 183.

† In this connection it is interesting to note the experience of the Act of 1911, one of the clauses of which permitted a rebate to employers who kept their men in regular employment. Very little advantage was taken of this concession, and the provision was withdrawn. Now that the sums are much larger, proposals are being made that the clause be put into operation again; but it is doubtful whether the effect on the employers would be materially different from what it was before.

‡ Cf., for example, Chapman, *Work and Wages*, Vol. II., pp. 325 *et seq.*

- (b) To this risk large numbers must be exposed.
- (c) It must be a risk which appeals to those on whom it is likely to fall, as a menace against which they would, if they could, provide.
- (d) The risk must be capable of being calculated with some degree of certainty.”\*

Experience of the operation of the Unemployment Insurance Scheme has swept away several of the doubts expressed as to the practicability, the conditions just enumerated having been sufficiently fulfilled to satisfy many former critics. Further, once the scheme was in work, statistics, otherwise unobtainable, were secured, thus permitting finer adjustments and more certain calculations.

The admission that unemployment is a contingency against which it is desirable and practicable to insure does not necessarily imply that the State should make itself responsible for the carrying out of the scheme. It is conceivable that private enterprise *might* supply this service in the same way as it insures against fire and death. But conjecture on this point is obviated by the fact that private enterprise, as furnished by the great insurance companies, has failed to provide what is increasingly recognised to be an essential service. Public intervention is justified when private enterprise fails to supply a commodity or service which is socially imperative.

Two additional reasons for a State insurance scheme may be noted. Firstly, the more numerous the insured and the wider the scope, the more satisfactory it is from an insurance point of view. Actuarial calculations can be made with more precision. In the same way as the risk of fire or death can be better apportioned, the more policy holders there are, so a better Unemployment Insurance service can be supplied

\* *Insurance Against Unemployment*, p. 63.

when the wage-earners come into a single State scheme rather than be distributed among several insurance companies.

Secondly, and this is perhaps more important, State intervention is necessary in order to secure a proper apportionment of the responsibility. Insurance with private companies without a State subvention is open to the same objection as entire dependence on savings, *viz.*, that it throws the whole burden on the workers themselves. Thus, one has to consider the question, not only of the State *administering*, but, to some extent, of the State *financing*, the insurance scheme. Partly because the cost should be equitably allocated among the different classes of the community, partly because unemployment in one industry may be caused by conditions in another, outside the control of the trades adversely affected, it is now recognised by most people that the State should contribute something towards the cost of unemployment insurance.

<p>Should the Workers Contribute ?</p>	<p>Many writers urge that insurance against unemployment should be on a non-contributory basis, at least as far as the workers are concerned. They submit that the cost of unemployment should be recognised as a national charge; that a worker should not be expected to contribute towards his maintenance in time of unemployment, as the responsibility for this emergency does not rest on himself.</p>
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Here the advocates of maintenance separate into two groups. One class proposes that the maintenance should be an *industrial* charge, and that the money for maintaining the unemployed should be set aside out of the gross profits of an industry before the final dividends are allocated. Maintenance of the unemployed in a particular industry, it is contended, should be viewed as a cost of production, analogous in some ways to the expense incurred, in times of depression, in preventing "unemployed" machinery and

plant from deteriorating. This proposal is bound up with the question of insurance by industry which is examined more fully later. The other group suggest that responsibility for unemployment does not rest on an industrial, but on a national basis, and that the charge should, therefore, be a *social* one, the State making itself directly responsible for the unemployed and under-employed.

It has been put forward in opposition to these views that maintenance, whether industrial or national in character, is inconsistent with the idea of insurance. Some upholders of the non-contributory method frankly admit this. But the absence of contributions from the workers may be quite consistent with a scheme of insurance. If there is to be industrial responsibility, the annual premium to be put aside out of gross profits may be scientifically calculated so that the risks of unemployment in the particular industry are well covered. Or, if this throws too heavy a burden on the less fortunate industries (and the unfair incidence as between industry and industry is a vital drawback), the State could place aside a sum, calculated in a similar manner, which, accumulating in times of prosperity, would be adequate for maintaining the unemployed in times of depression. Not only would social responsibility for unemployment thus be recognised and acted upon, but enormous economies in administration, through the cutting down of clerical and printing costs, would be effected.

It must not be supposed, however, that all the workers are in favour of non-contributory insurance. Some argue that benefits without contributions savour of charity, but that one's independence is not undermined when the workers, in the aggregate, pay for the benefits received in unemployment. There is a certain justification for this contention. But it should be remembered that, in the present scheme, the workers contribute only a part of the

total funds. The rest is not regarded as charity, and rightly so. There appears no reason, therefore, why this argument should be brought against a scheme in which the insurance is altogether free. Another objection put forward by some workers is that, whereas they are represented on the insurance committees while the system is contributory, they might lose this advantage if the workers' contributions were abandoned. But the difficulty of fair representation, even on a non-contributory basis, should not be insuperable.

The first legislation in this country to provide State insurance against unemployment is found in Part II of the National Insurance Act, 1911. The scheme, which was professedly experimental, applied to seven groups of trades\* which were especially subject to fluctuation in employment, altogether covering about two million workpeople. Provision was made for subsequent extension of the scheme by special order of the Board of Trade. The contributions were to be 2½d. from the employer, 2½d. from the worker (1d. if under 18), and ⅓ of the total contributed by employers and employed from the State. (It was estimated that the contributions from the workers' side represented slightly under 1 per cent. of the earnings, and from the employers side slightly over 1 per cent. of the wages bill.) The benefit was to be 7s. per week for a maximum of 15 weeks in 12 months, workers under 18 receiving half benefit. No provision was made for industries to "contract out" and set up a scheme for themselves. Workers in the insured trades, however, could make

\* Viz. building, construction of works (railroads, harbours, etc.), shipbuilding, mechanical engineering, iron-founding, construction of vehicles, and saw-milling.

arrangements with the Board of Trade, whereby the benefits could be paid through the trade unions.

Numerous amendments have been made since 1911. In 1916, for instance, the scheme was extended to many other trades,\* not specifically subject to exceptional fluctuation, the workers covered then numbering about four million. In 1919 the benefit was raised to 11s., and later to 12s. In 1920, the previous experiments having been found successful, unemployment insurance was extended to all wage-earners, except workers in agriculture and domestic service, most railway employees and persons in State and municipal employment, as well as non-manual workers receiving more than £250 a year. The rates of contributions were raised, and the benefits were increased to 15s. a week for men and 12s. for women, persons under 18 receiving half these amounts. Nearly twelve million employees were brought within the scope of the Act.

The Act of 1920 gave permission to industries to contract out by establishing "special schemes" of their own, on condition that the schemes were not less favourable than that provided by the State. In such circumstances, the State might give financial assistance in respect of the cost of administration, the grant not to exceed 1s. per head per week of unemployment. A year later, however, the permission to contract out of the scheme was suspended for as long as the Unemployment Fund continued to be in debt to the Treasury.†

Since 1920, several adjustments have been made in the contributions and benefits. In November, 1921, additional contributions entitled persons to an allowance in respect of

\* Viz. munitions, chemicals, metals, rubber goods, bricks, cement, etc.

† The insurance industry itself was the only one to take advantage of this power, and provides the only scheme of this kind in existence.

dependants. By the Act of April, 1922, the dependants' allowances were incorporated in the general unemployment benefit.

The Act of April, 1922, also made provision for the special payment of "uncovenanted benefit," *i.e.* benefit to which the worker under the general scheme is not legally entitled. The "gap" system was introduced, whereby workers who received uncovenanted benefit for five weeks during a defined period should be ineligible for benefit for the next five weeks.

The "gap" system was found to operate so harshly that in July, 1922, the "gap" was reduced to one week, and in 1924 it was altogether abolished. "The history of the Unemployment Insurance Scheme from 1921 onwards is largely that of the passing of one Act after another, granting further extensions of uncovenanted benefit on account of the very large numbers who remained unemployed. At the same time the 'covenanted' rights of insured persons who had contributions to their credit were strictly preserved, and were in some respects considerably enlarged."\*

In 1925 certain reductions were made in the employers' and workers' contributions, to compensate partly for the extra payments in respect of Contributory Pensions. The regulations with regard to uncovenanted benefit were at the same time, however, made more stringent.

The Unemployment Insurance Scheme has, from its inception, been subject to a large amount of criticism. The objections raised against the general principle have already been discussed. Those directed against the actual scheme in operation may be shortly noted.

Criticisms  
of the  
Unemployment  
Insurance  
Scheme.

The criticism most frequently encountered is that of the

\* Ministry of Labour: *Report on National Unemployment Insurance to July, 1923*. See Appendix E for extracts.

alleged costliness of the scheme. It is pointed out, for example, that the annual expenses of administration amounted to nearly £4,000,000 during the period of post-war depression. This criticism, however, ignores the fact that the employment exchanges, besides conducting the insurance scheme, fulfil many other functions, especially the filling of vacancies, and that the cost of these services should, strictly, be deducted from the above sum.

But even if one takes the figures as a whole, the percentage of costs to the amounts paid out is very low—under 9 per cent. The small ratio is significant in view of the percentage of management costs of other kinds of insurance. Industrial Life Insurance absorbs over 40 per cent., and Fire Insurance about 50 per cent. National Health Insurance, on the other hand, takes less than 15 per cent., while Old Age Pensions take about 3 per cent.\* The relatively high percentages in the cost of conducting insurance under private enterprise is not due to internal mismanagement but to the wasteful system as a whole. Overlapping and duplication are very prevalent in the insurance industry.

A second criticism is directed against the alleged insolvency of the Unemployment Insurance Funds; nearly £15,000,000, for example, was borrowed from the Treasury during 1923. It was unfortunate for the scheme that it commenced just before a period of exceptionally severe

\* These ratios are not altogether comparable. The absence of contributions in the Old Age Pensions Scheme for persons of seventy years of age and over accounts largely for the small expense percentage. Again, much expenditure in clerical work in connection with Unemployment and Health Insurance is borne by the employers, and is not included in the above ratios. But even when the necessary allowances are made, the disparity between the expense ratios of State and of private insurance schemes is very instructive.

depression, and that no opportunity, therefore, was provided to build up the necessary reserves. The granting of uncovenanted benefits also helped to make borrowing inevitable. But a debt does not necessarily imply bankruptcy; in this instance it resembled rather an overdraft, against which there was ample security. The improvement, on the whole, in industrial conditions in the last couple of years has already been reflected in the cessation of borrowings from the Treasury, and in the gradual repayment of the loan. Much of the money paid out in uncovenanted benefit will be returned in contributions from the recipients when they secure employment. A few years of average trade should witness the accumulation of adequate reserves, and a substantial reduction in the rates of contribution.

More serious is the criticism that there is overlapping with the scheme of National Health Insurance, and that this duplication causes a considerable amount of waste. About three-quarters of the people insured against ill health are also insured against unemployment. The "stamp and card" method is adopted in each case, and the clerical work is thus unnecessarily duplicated.\* Sir W. Beveridge considers the charge undesirable, partly on the ground that the stamped card is required both by the approved societies administering the health insurance and the public body dealing with unemployment benefits.† But it should be possible to devise a means of supplying the necessary records to the several authorities without this wasteful overlapping. While one recognises that a

\* The Geddes Committee proposed a single stamp and card for the two schemes, claiming that a million pounds a year would thus be saved. An Inter-departmental Committee was appointed to inquire into the possibility, but no satisfactory arrangement has yet been decided upon.

† *Insurance for All and Everything*, 1924. For the opposite view see Alban Gordon, *Social Insurance*, 1924, pp. 33-4.

system which has grown after the manner of the British insurance schemes must necessarily in the early stages cause a certain amount of duplication, the time seems ripe, now that the schemes are in operation, for measures to be adopted which will co-ordinate and unify the whole system.

During the last few years, schemes for unemployment insurance by industry have been put forward from several quarters, and although, in view of the criticisms to which these schemes have been subjected, the movement now appears to be on the wane, the subject is still sufficiently important, both in itself and in its relation to the broader problem of social insurance, to merit particular attention.

This form of insurance being propounded from so many directions, and having its adherents among both employers and employed, it is inevitable that the proposed schemes should differ not only in details of administration but even in principle. Mr. J. L. Cohen mentions nearly a dozen forms of insurance by industry\*, many varying greatly in character in spite of their general designation. It is only necessary here to indicate the principal types of these schemes.

The oldest form of insurance against unemployment, with the industry as the unit, is that provided by the trade union. Although much valuable service of this kind has been, and still is being, supplied by workers' organisations, the extent is naturally limited. The schemes are voluntary in character and, as a rule, only the better-paid workers are provided for in this way; where benefits are arranged for the poorer-paid workers they are very inadequate, while for the unorganised semi-skilled and casual labourers there are, of course, no such benefits at all.

\* *Social Insurance Unified*, 1924, Essay III.

Linked up with this method is another form of voluntary unemployment insurance by industry, known as the Ghent system, under which the municipality makes a grant to trade unions providing unemployment benefits.\* But, as this method fails to bring in the poorly-paid and unorganised workers, the scheme has not been generally satisfactory.

A third method on a voluntary basis is that of establishment funds set up in some firms, which put aside a certain proportion of their total profits for this purpose. Establishment funds of this character are objected to by many labour leaders who maintain that, as under profit-sharing and co-partnership schemes, the workers are seduced from allegiance to their trade union, and that the advantage to them, if any, must be transitory ; and ultimately it must be more than counter-balanced by a loss of independence and perhaps by a reduction in real wages. But even if one attributed the best motives to the employers, and took all precautions against the possible loss of the workers' independence, exclusive reliance upon such schemes would still be open to criticism. As these firms are very few, and since in any case only large concerns could conduct such schemes, the number of workers affected must necessarily be but a small proportion of the total.

While insurance against unemployment remains on a voluntary basis, it cannot be applied satisfactorily to all classes of workers. A scheme must be compulsory if the benefits and costs are to be equitably distributed. The voluntary arrangements just mentioned are naturally limited, and the other proposed schemes of insurance by industry cover a wider field, substituting compulsory for voluntary payments. Some propose that the employers should be compelled to insure their workmen against un-

\* See Clarke, *Social Administration*, pp. 214-7 for an outline of the several European methods.

employment. A difficulty in this method, however, is that of allocating all the workers to particular employers ; even if this were possible, there would be no guarantee that all the employers, especially the small masters, would carry out their obligations. The administration also would be wasteful and costly.

Another suggestion is that the present scheme be continued, with the modification that industries may establish special schemes, provided that they contribute a certain sum to the State scheme. A minimum benefit is to be guaranteed, and the workers in an industry are enabled to secure additional benefits, if they wish, by the payment of additional contributions.\*

It is evident from the most cursory examination of these schemes that a distinction must be drawn between *administering* and *financing* a system of insurance by industry. The first is much easier than the second. It is upon the financial rock that more than one separate scheme has foundered. An industry which makes low profits and gives low wages may, in a sense, be as necessary to the community as one which earns high dividends and pays good wages. Throwing financial responsibility on each industry would make it impossible for many of the less prosperous industries to carry out an adequate scheme.

Unemployment insurance by industry is supported by certain groups of people who on almost every other topic are in opposing camps. Thus the adherents include some Guild Socialists on the one hand, and large capitalist employers on the other. The reason for this mixed allegiance is not far to seek, especially as there is no unanimity as to what "insurance by industry" really means.

\* On these schemes, see Memorandum of the Ministry of Labour on Insurance by Industries, September, 1922.

The Socialists' and the capitalists' conception are poles asunder. Many employers support it because they prefer to restrict State intervention to the minimum, or because the average rate of unemployment in their particular trade is low (*e.g.* in the textile trades). Some Guild Socialists favour it because a step would be taken in the direction of their ideal, and valuable experience would be gained in industrial self-government.\* Guild Socialist support, however, is not now so strong as it was.

A third argument put forward in favour of insurance by industry is that it would be possible to adjust the contributions in such a way that the unemployment benefits would correspond more to the respective standards of living of different classes of workers than is the case under the present system of equal contributions and flat rates of benefit. This is a valid claim, and points to a deficiency in the present arrangement. But it should not be assumed that such adjustment is altogether impracticable in a national scheme; it ought not to be impossible for rates to be differentiated though the scheme remain national in character.

Fourthly, the advocates of insurance by industry maintain that the responsibility for its own unemployment would induce an industry to improve its organisation, and not discharge any more workers than may be absolutely necessary. Thus, where there is a seasonal demand, a firm might endeavour to dove-tail cognate activities, and so minimise dismissals. For example, Luton manufacturers produce straw hats in one half of the year and felt hats in another; pickle manufacturers are known to produce confections and sweets in their slack periods. But the extent to which unemployment can be reduced by improving internal organisation should not be over-rated. As was shown in

\* See above, p. 162.

Chapter X., unemployment is usually caused by factors beyond the control of particular industries and firms. Again, where the employer has a large amount of expensive fixed plant, this alone is an inducement to keep unemployment at the minimum, quite apart from other incentives. In any event, the contributions of the employers to the insurance fund are such a small proportion of the aggregate costs of running the business that a slight increase or decrease is not likely to affect the policy of the firms to any marked degree. Increases in wages under the Trade Boards stimulated improvements in organisation because the gross expenses were considerably increased. But the stimulus afforded by the contingent additions to insurance contributions would be relatively insignificant, especially where the contributions were incorporated in the price of the product and so passed on to the consumer.

Finally, it is urged that if the unorganised and poorly paid workers are unable to insure themselves by industry, the State will be compelled to take responsibility for them in a national scheme, and so remove the burden from the better-paid workers of the community as a whole. But here again there would be lack of unity, and if the object is to secure a fair incidence of the burden, it is doubtful whether this is the best course to follow.

Some of the objections to unemployment insurance by industry have been noted in criticising the advantages claimed on its behalf. Other, and more fundamental, objections may be raised. Firstly, there is the difficulty of defining an industry. The cotton industry is as well-defined and concentrated as any, yet even this cannot be correctly described as an industrial unit, for it is closely linked up with the wool industry, engineering, the chemical trades, mining, and innumerable other occupations. Conditions in

Objections to  
Insurance by  
Industry.

all these trades must affect employment in the cotton industry. Yet while such a scheme, despite the difficulties, might be practicable in the textile and similarly placed industries,\* it would be almost impossible in those industries (*e.g.* engineering) that traverse "horizontally," as it were, the entire economic system. The trade union cannot be regarded as co-extensive with an industrial unit; and even if it could, the unorganised workers would be left unprovided for. The present demarcation disputes among trade unions would be small compared with similar disputes as to responsibility for the unemployed. Complications through differential rates and benefits would also arise.

Secondly, there would have to be machinery for the transfer of a person's claims from one industry to another, as, for example, when a typist or a carpenter leaves the shipbuilding for the furniture industry. Such machinery, entailing much clerical work, would be very costly. There is already a large amount of clerical work that might be eliminated if the present national system were better co-ordinated; thus, there might be established a single authority for keeping records of cases, instead of their being kept severally by the Ministry of Labour, the Treasury and the provident societies. But the clerical and administrative work in a scheme of insurance by industry would necessarily involve still greater waste.

Thirdly, there is the objection, previously noted, that the

\* During the war an attempt was made to introduce a scheme of unemployment insurance in the cotton industry. The funds were provided by the employers and administered by the trade unions. Combined with this scheme was the "rota" system which in time of depression alternated four weeks of employment with one of unemployment. This scheme appeared to work satisfactorily for a time, but its life was cut short, partly, it is said, because it hindered the flow of workers into the munitions trades.

larger the unit the sounder and more dependable are the calculations of risks. In the same way as the great insurance companies, by spreading the risks over a larger number of cases than the smaller companies, can be more certain of their estimates and obtain greater economies, and, further, in the same way as a single all-inclusive insurance company (whether run as a trust or by the State does not matter for the moment) can secure still greater certainty and economies than individual firms, so an unemployment insurance scheme on a national basis is likely to be more reliable and economical than a number of individual schemes conducted by separate industries.

Fourthly, a system of insurance by industry would be uneconomical in the matter of finding employment for the applicants for relief. A necessary provision in all unemployment insurance schemes is the securing of information as to vacancies, and the condition that an applicant who refuses suitable employment, at the recognised rate of pay, is liable to lose the right of benefit. Each industry would require its own organisation of employment exchanges. In addition, there would have to be some form of central exchanges, whereby workers might be transferred from one industrial group to another, and also, some State organisation for dealing with casual workers and others who did not come within any of the industrial groupings.

Fifthly, the mobility of labour would be impeded. Transfer of services from one group to another would be difficult and cumbersome, especially where the contributions and benefits were on different scales. Anything which tends to make labour more immobile than it is should be regarded as a retrogressive measure.

Sixthly, and most important of all, there is the objection that a scheme of insurance by industry would be unfair in its incidence. As a rule, unemployment hits the best-

paid workers less heavily than the worst-paid workers. Under a scheme of insurance by industry, the workers who are financially the best off might escape with relatively low contributions, while the badly-paid workers might be called upon to pay the most—an impossible task, apart from the injustice. To this the trade union advocates of insurance by industry would probably reply that the State should provide a bigger subsidy for the poorly-paid workers, thus making the burden fall on the whole community and not on the better-paid workers alone.

The essential question, however, is much deeper. Is a more fortunate industry (comprising employers as well as employed) justified in paying comparatively little, while another industry, more liable to unemployment, yet equally important from the national standpoint, has to contribute an excessive amount? Justification, if any, must depend on the cause of the unemployment. If the cause cannot be directly attributed to the particular industry, the responsibility for the burden should not rest entirely on the members of that industry. Indeed, it is possible that changing conditions in a prosperous industry may be directly or indirectly the cause of unemployment in other occupations. It would obviously be unfair to relieve the first industry of its responsibility towards the others.

But most unemployment is ascribable neither to one particular cause nor to conditions in particular industries. The roots lie too deep for specific responsibility to be placed on the different industrial groups. The whole community must bear the burden.\* Strictly, even the national unit is

\* In the House of Commons, on July 18th, 1924, Mr. T. Shaw, Minister of Labour, though formerly sympathetic to insurance by industry, strongly criticised the proposal.

“There could be no question that it was to the advantage of the State to have the scheme as large as possible, and containing as many good lives as possible, so that its contribution should be as low

not large enough, for unemployment is as much attributable to circumstances abroad as to conditions at home. With the development of international labour legislation there may ultimately be an international scheme of unemployment insurance. Though this is not contemplated at the present time by any but the most sanguine believers in world co-operation, the possibility should not be overlooked. A national scheme would not be ideal, however efficient the internal administration, but it would be immeasurably superior to a system conducted on the narrower industrial basis.

Finally, insurance by industry is to be criticised on the ground that it would hinder the growth of a comprehensive scheme of social insurance. The time cannot be long delayed when insurance against unemployment, accidents, illness, and several other contingencies will be brought into a unified scheme. Obviously such a plan would have to be on a national basis, at least, and this would mean the

as possible. The confederation of employers was definitely in favour of a national scheme and opposed to contracting out, while the organised workers were divided, roughly, into two equal parts. In the cotton-weaving industry, in which the organised workers expressed a strong desire to have a system of insurance by industry, 40 per cent. of its people were unemployed. To give the present rate of benefits, and assuming the average to be 18s., that industry, in the long run, would be faced with a contribution of 12s. per head per week. Could they face a contingency like that? Of the great staple industries, he found that if the engineering, iron, and steel industries had their own organisation, at present they would have to pay roughly 3s. per week per person in order to get the benefits given under the Bill. The shipbuilding industry would have to pay 6s. 6d. per head per man employed, and the cotton textile industry 3s. 3d. per head. Obviously those industries which would have asked to be allowed to contract out would be those least subject to fluctuation, and the scheme would have been left with the weaker residue."

—*Times* Report.

termination of any separate schemes that were started. Better to move in the proper direction from the outset than to take a course which must, sooner or later, be abandoned.\*

So far, unemployment insurance only has been considered, but, as stated earlier in the chapter, the general principles underlying this form of social insurance are of wider application than to the contingency of unemployment alone. Hence, it will

\* The trade union movement recently balloted on the question of unemployment insurance by industry. The results were very instructive. 43 unions voted for, 21 voted against, and 17 were non-committal. These figures, however, are misleading unless one notes also the voting according to *membership*: 1,252,600 members voted for, 2,670,900 voted against, and 978,900 were non-committal. Thus more than two to one of the members who voted were against the scheme. Some of the largest unions were against the proposal, *e.g.* the miners and the railwaymen. The chief unions voting in favour were the textile unions. The following table is taken from the *Memorandum on Unemployment Insurance by Industry*, published by the Trades Union Congress and the Labour Party.

#### DECISION OF TRADE UNIONS ON INSURANCE BY INDUSTRY.

Unions approving			Unions opposed		
No.	Trades.	Membership.	No.	Trades.	Membership.
14	Textile	414,900	2	Textile	16,500
2	Clothing	96,700	5	Building	224,400
5	Printing	171,500	5	Metal	85,400
4	Building	22,600	9	Other	2,344,600
4	Metal	166,300			
14	Other	380,600			
<hr/>			<hr/>		
43		1,252,600	21		2,670,900

Unions withholding opinion: No.: 17, Membership: 978,900.

It may be added that the Trades Union Congress voted against the scheme.

not be necessary to examine the other schemes of social insurance at the same length.

National Health Insurance was introduced into this country in 1911 ; all workers with incomes of less than £160 (raised later to £250) per year and all manual workers, whatever their incomes, were brought within a State scheme of compulsory insurance against sickness and disablement. Like unemployment insurance, the scheme is on a contributory basis. Under the present scale men pay 5d. per week, women 4d., the employer 5d. (apart from the recently added contributions in respect of pension benefits) and the State two-ninths of the total sum required.\* The benefits are of two kinds, cash and treatment. Belonging to the first type are sickness benefit (15s. for men and 12s. for women for a maximum period of twenty-six weeks), disablement benefit (7s. 6d. for the period of disablement), and maternity benefit (£2, or, where the wife of an insured person is an insured worker herself, £4).† Doctor's attendance and the provision of medicine comprise the treatment benefit ; sanatorium treatment was included at first, but this function was later transferred to the local authorities.

The National Health Insurance Scheme was an experiment in self-government. The principle was laid down that the insured workers should themselves administer the benefits through their own elected autonomous bodies. The "approved societies" might be friendly societies, trade

\*In view of the fact that contributions and sickness and disablement benefit will cease to be payable in respect of an insured person at the age of 65 instead of 70, as from January 1928, the rates of contribution will be reduced from 10d. to 9d. for men, and from 9d. to 8½d. for women, as from January, 1926.

† As the maternity benefit barely covers the medical and nursing expenses, it might equally be regarded as a treatment benefit.

unions, or private insurance companies. At the present time there are over a thousand of these societies, while their branches number over seven thousand.

From its inception the National Health Insurance Scheme has been criticised from several quarters. Firstly, the cash benefit is held to be inadequate, especially where the insured person has dependants. Secondly, it is advocated by many that medical benefit should be provided for the wife and children. Thirdly, the nature of the medical treatment is criticised; surgical benefit is not provided, while hospital and maternity treatment is very deficient. Fourthly, the panel system as a whole has been viewed with disfavour; doctors are frequently alleged to give insufficient attention to their panel patients, especially where they engage in private practice as well.\* Fifthly, the scheme is open to objection in that it pays insufficient attention to the prevention of disease as distinct from dealing with complaints once they have made themselves manifest.

Not only the extent and character of the benefits but also the administration of the National Health Scheme is open to weighty criticism. The "card and stamp" method is regarded as cumbersome and costly, but the main attack is reserved for the approved society. There is a serious lack of co-ordination among the different societies, resulting in much overlapping of activities and areas, together with a marked inequality of benefits for equal contributions. Many of the societies are inefficiently con-

\*According to recent changes, an insured person may change his doctor at any time. Further, the maximum number of patients for whom a practitioner may accept responsibility is 2,500. Payment of doctors or chemists is withheld by the Ministry of Health where it is found that they have given an unsatisfactory service. See the Ministry of Health's *annual reports*.

ducted, while the democratic principle of self-government is often belied. The approved societies are frequently over-burdened with other duties, and the administration of health insurance benefits necessarily suffers.

These and many other criticisms, which need not be discussed here, have been levelled against the National Health Insurance Scheme, and improvement is urgently called for. Some people would be content if the machinery and benefits were merely adjusted, while leaving the essential arrangement untouched. Others aim at a more radical alteration, and would incorporate Health Insurance in a general scheme of National Social Insurance. Others again would go still further, and provide a system of State Medical Service on a non-contributory basis\* ; medical treatment would for practical purposes come within the same category as elementary education, freely and unconditionally provided.†

The first Workmen's Compensation Act was passed in 1906, and provided that employers should pay compensation to their workpeople, without distinction of age or sex, who, as a result of accident or specified industrial disease, arising *out of and in the course of* their employment, are prevented from earning their ordinary wages. If the worker is temporarily or permanently incapacitated, he receives a weekly payment during the period of disablement ; should the accident or disease result in death, the compensation is a lump sum payable to the dependants.

The Amending Act of 1923 modified the law in several important respects. In fatal cases the Act of 1906 had provided for compensation, calculated entirely on the

\* See, for example, Alban Gordon, *Social Insurance*, 1924, Ch. II.

† For some criticisms of the National Health Insurance Scheme, see A. Gray, *Some Aspects of National Health Insurance*, 1923.

earnings of the deceased person, with no reference to the number or position of the dependants. The amending Act allows for an additional payment in respect of dependent children under 15, the total maximum compensation being raised from £300 to £600, and the minimum from £150 to £200. In cases of disablement, the Act of 1906 had stated that the weekly compensation should not exceed 50 per cent. of the wage, with a maximum of £1. The new Act raised this maximum to 30s., and provided for a compensation up to 75 per cent. in the case of the lower-paid workers.

The Act of 1923 also extended the scope of workmen's compensation. Non-manual workers with remuneration of more than £250 a year had hitherto been excluded, but the limit was now raised to £350. The range of occupations was also widened; *e.g.* fishermen, not sharing in the profits of the vessel, were brought within the scheme. About 15,000,000 workpeople are now covered by the Act.\*

Whereas insurance against unemployment and ill-health is compulsory, that against industrial accident still remains on a voluntary basis. Where the employer does protect himself by insuring with a company or a mutual indemnity association, neither the State nor the workman pays a contribution towards the fund. The Act has been criticised for not compelling all employers to insure, for, in cases where the employer is in a small way of business, the injured workman or his dependants may get little or no compensation. It is estimated that 250,000 employers are "self-insurers," *i.e.* they have not protected themselves with an insurance company or a mutual indemnity association.

A second criticism to which much attention has been

\* For a simple statement of the main provisions of these Acts, see the Home Office *Memorandum on the Workmen's Compensation Acts, 1906 and 1923* (1924).

drawn is the heavy cost of administering this form of insurance. The Holman Gregory Committee\* pointed out that, of every £100 paid in premiums, no less than £52 went in expenses of management and profit. The Committee termed this method "wasteful and unsatisfactory" and recommended that the State should exercise a control over the premiums. The Act of 1923 did not give effect to this proposal, but the companies gave an undertaking that the expense ratio should not exceed 40 per cent. of the premium income ( $37\frac{1}{2}$  per cent. after 1926). This promise has been observed, and conditions have slightly improved during the last couple of years, but, compared with the 9 per cent. for Unemployment Insurance and 14.5 per cent. for Health Insurance, the expense ratio for Workmen's Compensation, even after allowing for the different administrative conditions,† is unduly high.

Other criticisms may be shortly noted. Disputes in the interpretation of the Acts are constantly arising, and a vast complexity of "case law" has resulted. Litigation is all too common, and the workman is often compelled to wait for weeks or months before the compensation, if any, is received. The terms of the Health Insurance Act prohibit the payment of sickness benefit to persons who receive compensation for accidents and industrial diseases. "Border-line" cases, in which it is difficult to decide whether a man is eligible for compensation, are continually arising. The employer may decline liability, and so may the approved society; and pending a settlement the workman suffers. Often he surrenders his claim in the face of the legal difficulties. Other anomalies, equally bad, could be enumerated. Critics also maintain that the number of

\* *Report of Departmental Committee on Workmen's Compensation*, 1919 (Cmd. 816).

† Cf. above, p. 323 note.

industrial diseases (32\*) is too restricted, and point out, further, that workmen who suffer from complaints that arise from the employment, but may also occur apart from it, receive no compensation.

Finally, the scheme has been censured as being too limited in scope in that it does not apply to non-industrial accidents. As little more than 2 per cent. of all accidents are "ordinary" as distinct from "industrial,"† there should be no real difficulty in making the necessary alteration. But as individual employers would object to paying compensation for those accidents not directly related to the occupation of the workman, the basis of the scheme would have to be widened. To cope with anomalies and difficulties such as these, many authorities propose the absorption of Workmen's Compensation in a comprehensive scheme of National Social Insurance.

By the Old Age Pensions Act of 1908, all persons of  
 Old Age Pensions.      seventy years of age, who have been British subjects for at least ten years, or if natural British subjects have resided in the United Kingdom for not less than twelve years since attaining the age of fifty, are eligible for a pension, provided that their income does not exceed a specified amount. During the war the maximum pension was increased from 5s. to 10s., and the means limit raised to £49 17s. 6d. The pension varies with the recipient's income, and may be as low as 1s.

In 1925 Old Age Contributory Pensions of 10s. per week were provided for insured men and insured women between 65 and 70, and for the wives between those ages of insured men who were themselves entitled to pensions. These

\* See *Memorandum*, Appendix II. for list of industrial diseases.

† Alban Gordon, *op. cit.*, p. 45.

benefits come under the same scheme as Widows' and Orphans' Pensions, of which something is said below.

The funds for the non-contributory pensions for people over seventy years of age come of course from taxation. It would not be correct, however, to exclude these pensions from a discussion of Social Insurance, for the money set aside out of taxation revenue is but another form of premium, payable ultimately by the individual, against the risk of poverty in old age. A strong resemblance exists between the benefits to the sick and disabled and the pensions to the aged, both classes of payment being in respect of physical incapacity to earn a living.

The means limit has been subject to trenchant criticism, for it places a distinct penalty upon thrift. Unless his savings are likely to yield him a return considerably above the Old Age Pension, a man is not encouraged to put anything aside during his working life for support in his declining years. The Departmental Committee of 1919\* recommended that the means limit should be abolished altogether, and that all persons at the age of 70 should be eligible for Old Age Pensions. Progress was made in 1924, when the means limit was considerably reduced, and the time when it will be entirely abolished cannot be long delayed.

The contributory Old Age Pensions for persons between 65 and 70 stand on a different footing and are not subject to any means limit. Insured pensioners, on reaching the age of 70, become entitled to the ordinary non-contributory pension, freed from the restrictions and disqualifications at present applying to these pensions.

While the recent improvements are a cause of satisfaction, many critics urge that non-contributory pensions should be granted, without any means limit, to all persons

\* *Report of Departmental Committee on Old Age Pensions, 1919* (Cmd. 410).

on reaching the age of 65. It is pointed out that the majority of people have by, or even before, the age of 65 lost their earning capacity, and if, for one reason or another, they are not eligible for a pension under the contributory scheme, serious hardship may ensue. Also, the maximum of 10s. per week is considered to be entirely inadequate to maintain an aged person, however meagre his wants. Frequently recourse has to be made to the Poor Law or private charity, in which case the charge on the community is much more than the actual State subvention, not to mention the loss occasioned by the overlapping of functions and the extra cost of administration.

It was estimated in 1919\* that if the age were reduced from 70 to 65, the number of pensioners would increase from 920,000 to 1,500,000 if the existing means limit were retained; and from 1,577,000 to 2,692,000 if the means limit were abolished. Reckoning the pension at 10s. (the average is about 9s.) the cost in the former case would increase from £23,500,000 to £37,900,000; in the latter from £41,000,000 to £70,000,000.

While one cannot ignore the additional expense to be incurred by the taxpayer, one should not be too pessimistic as to the real burden. In the first place one may reasonably expect a diminution in the claims for Poor Law assistance and a corresponding reduction in the amount of the Poor Rate. The number of workhouse inmates between 65 and 70 should also diminish, in which case there should be an appreciable net saving, for the average cost of maintaining the inmates is £1 15s. 6d. per week (1922).† Indeed a

\* *Departmental Report*, 1919 (Cmd. 410, p. 19).

† For purposes of comparison with the Old Age Pensions, the actual cost of maintaining the aged inmates would be somewhat less than £1 15s. 6d., for this figure includes the cost of hospital and similar treatment, not confined to old persons alone.

strong case could be made out on financial grounds alone for increasing the pensions, taking old people out of work-houses, and thus reducing the Poor Law expenditure by a greater amount than the addition to the pensions bill. On humanitarian grounds the case is even stronger.

Secondly, in so far as the pensions at 65 caused a withdrawal from the labour market, more openings should be provided for the younger men. The extent, however, to which the men eligible for a pension would throw up their employment would not be as great as is often supposed, unless the pension were raised appreciably above the present figure. Any increase in Old Age pensions expenditure, however, that meant ultimately more employment for the younger workers, would be partly made up by the saving in Unemployment Insurance.

Pensions for widowed mothers and for orphans were introduced in 1925. The new scheme, which, as stated above, also provided Old Age Pensions for insured persons at the age of 65 instead of 70, rests on a contributory and compulsory basis, and is interlocked with the present scheme of Health Insurance.

The ordinary rates of contribution, commencing on January 4th, 1926, are 9d. for a man (of which 4½d. is payable by the employer and 4½d. by the employee) and 4½d. for a woman (2½d. by the employer, and 2d. by the employee). Allowing for the reductions in the Unemployment and the Health Insurance contributions,\* the net total cost of the compulsory insurance services is increased by 2d. per week for both the employer and the worker. The new Scheme does not impose any extra work on the employer in regard

\* See above, p. 322 and 335 note.

to the stamping of cards, since a single stamp suffices for the Health and Pensions contributions.

The benefits comprise 10s. a week for widows of insured men, together with an additional allowance for children up to the age of 14, at the rates of 5s. a week for the eldest child and 3s. a week for each of the other children. The pension to the widow is payable until she attains the age of 70 or re-marries, but re-marriage does not affect the allowances for the children. The scheme also provides pensions for orphans of insured persons at the rate of 7s. 6d. a week for each child up to 14, or 16 if the orphans are allowed to remain at school until that age.\*

Criticism of the new Pensions Scheme comes from several directions. One section urges that a heavy burden is laid on industry, which is not in a position at the present time to bear the extra expenditure. In individual cases the additional load, in comparison with the profits, is undoubtedly considerable. In general, however, the burden of a few pence on the top of the weekly wage is liable to be exaggerated, and, if past experience of similar matters is any guide, the effect on industry will not be as disadvantageous as is sometimes claimed. It should also be borne in mind that there will be a certain saving in the Poor Rate.

Other critics, while approving the principle of these pensions, find fault with the contributory basis, and would raise the necessary funds entirely out of taxation, which, it is claimed, would distribute the burden more equitably over all the members of the community. There is much to be said for this contention, for under the present scheme only about 70 per cent. of the population are called upon

\* For details of the new Pensions Scheme, see the Ministry of Health's Memorandum, 1925 (Cmd. 2405) and subsequent amendments; also the Report of the Government Actuary, 1925 (Cmd. 2406).

directly to share in the cost. The Socialist critic, in particular, objects to the contributory method. The scheme is also opposed on the grounds that a large number of single women, though they will never marry, are compelled to contribute towards widows' pensions. While this criticism is not without some weight, the scheme must be taken as a whole and not be regarded from the standpoint of individual classes of contributors. Incidentally, pensions on a non-contributory basis would entail a lower cost of administration than the existing scheme.

Another criticism is that the contributions under the scheme are excessive in view of the small benefits. The widows' and dependent children's pensions work out between them at less than 1s. per head per day, which is insufficient to provide the barest necessities of life. Resort will still have to be made to the Poor Law. There is the danger, too, that widows, in their anxiety to supplement their meagre pensions, will undertake work at less than the standard wage and so depress the rate of remuneration of workers who are not subsidised. The granting of pensions to young widows without children is particularly criticised, mainly for this reason. It was suggested in the previous discussion on women's wages and State subventions\* that a condition of widows' pensions should be the withdrawal of the recipients from the labour market. But before such a withdrawal could be insisted upon, the pensions would have to be higher than the present rates.

Yet, despite these drawbacks, and others that might be enumerated, the scheme marks a distinct step forward. A beginning has been made, and it is reasonable to expect that with the coming of more prosperous times, the pension provisions will be more generous and comprehensive.

\* Pp. 142-145.

Burial Insurance, which is really a form of life insurance for small sums, accounts for an enormous expenditure every year. In 1922 it ranked next to Unemployment Insurance, being responsible for £35,000,000 out of the total of £158,500,000 spent on Social Insurance of different kinds. Practically the whole of this form of insurance is administered by private bodies, though a State scheme of life insurance has existed for many years. The State issues policies through the Post Office, but owing to the lack of publicity very few people are aware of the facility. Less conservative insurance tables and methods and a greater degree of publicity would doubtless increase the amount of State life insurance considerably beyond the present negligible proportions. Burial insurance is also provided among the funeral benefits of friendly societies and trade unions, and most of these bodies administer the benefits economically and efficiently. Some societies, however, have not the financial soundness that should be demanded of an organisation holding funds for thousands of workers.

The bulk of this form of insurance is in the hands of the large industrial companies, which, with their armies of agents and their lavish expenditure on advertisement, have built up an enormous business out of the weekly coppers paid by millions of policy-holders. About thirty million pounds are contributed annually to the eight chief companies. The expense of management is extremely high, varying from 30 to 40 per cent. of the premium income. Even this is an improvement on the ratio of a few years ago, when it was calculated that out of every shilling paid in premium, only 6 $\frac{3}{4}$ d. was paid out in benefit.\*

With the present overlapping and costly competition of

\* *Report on Board of Trade Committee on Industrial Life Assurance, 1920 (Cmd. 618).*

the large companies, a high expense ratio is inevitable, and many people, who in other matters are not favourably inclined to State management, are prepared to make an exception in the case of burial insurance. The ratio of expenditure to income is considerably lower in the various State insurance schemes, not because the administrators are more efficient, but because the cost of securing business is nil (the schemes being compulsory) and the expense of collecting payments is much below that of the industrial companies. Since the State provides pensions for the aged, there appears no proper reason why it should not incorporate funeral benefits in the national scheme. It is significant that burial insurance was included in the draft provisions of the first Health Insurance Bill, but that it was immediately withdrawn, owing largely to the opposition of the powerful insurance companies.

It is not necessary here to enter into the various proposals that have been submitted for the unification of Social Insurance.\* The designers of some schemes aim at merely co-ordinating the existing machinery, and would be satisfied with an arrangement that prevented overlapping and reduced the management expenses. If this economy could be secured while leaving the main responsibility in the present hands, *i.e.* shared between the State and the private organisations, some advocates of unified insurance would be content. At the most they would ask for a more efficient State supervision. Others, however, deny the possibility of effecting this improvement and securing a proper unity so long as the administration is distributed among the different bodies. They recommend a complete fusion of the existing

\* See, for example, Sir William Beveridge, *Insurance for All and Everything*, 1924; J. L. Cohen, *Social Insurance Unified*, 1924, Essay IV.; Alban Gordon, *Social Insurance*, 1924, Part II.

schemes. It should not be necessary, they say, for a workman to have dealings, according to the nature of the contingency, with several different authorities. Anomalies like those arising from separate organisations catering respectively for industrial diseases and ordinary ill-health should be removed.

The arguments in favour of a national scheme comprising all the forms of insurance considered in this chapter may be shortly summarised. Firstly, it has been submitted that where private enterprise fails to provide a necessary service in adequate quantity or quality, or does not administer the service efficiently or economically, public intervention is justified. Neither Burial Insurance nor Workmen's Compensation can be regarded as adequately or efficiently administered, and opinion is growing that these branches of insurance should be brought into a comprehensive scheme. Secondly, even where the service is already controlled by the State, as in the case of Unemployment and Health Insurance, there is needless overlapping of the different departments, and greater economy could be secured if some central co-ordinating body were set up. Thirdly, it has been shown that the larger the number of insured and the more numerous the risks covered, the more accurate and dependable are the calculations, and the easier it is to adjust total premiums to total benefits. Every scheme working separately must allow for a fairly substantial margin of error. The amalgamation of the different schemes would make it possible to have centralised emergency funds which need not be as large as the aggregate of the different funds under the separate schemes.

One drawback of the present schemes, it has been pointed out, is the flat-rate method of contribution and benefit. In practice this means that the benefit is fixed at some shillings

below the wage of the least-paid worker. It is deemed advisable not to pay more than this sum lest malingering be encouraged. Further, to pay higher benefits might involve larger contributions than the poorer workers could afford. On the other hand, a low flat-rate benefit causes hardship to people who are usually in receipt of high wages, and who have become accustomed to a higher standard of life. Even under the separate schemes it should not be impossible to remedy this defect ; but it would be much easier if the schemes were combined and a single payment, graduated according to income, secured benefits varying in proportion.

The difficulties in the way of unification are enormous, but they should not prove insuperable. One of the chief obstacles is presented by the vested interests of the different private bodies at present sharing in the administration of the various schemes. The problem is wider than that of merely countering the influence of the big companies and friendly societies in Parliament and elsewhere. Thousands of collectors and other employees of the numerous insurance bodies afford a kind of vested interest with which it will not be easy to deal. Many of these fear that a general national scheme would cause unemployment among their members, and they are likely to oppose, therefore, any attempt, at unification that might prejudice their livelihood. If any precipitate action is taken such unemployment might easily result, for the number of additional officials required by the extended State scheme would not be sufficient to absorb all those discharged from private employment. Yet it must be recognised that the present system is extremely wasteful ; that thousands of insurance collectors are doing work which would be unnecessary, or at least capable of reduction, under a State scheme.

State  
Monopoly  
or State  
Competition ?

Another difficulty would arise in connection with compensation, if the State decided to monopolise all the social insurance services. How much should be paid to the big insurance companies? At the other extreme, how should one deal with a collector who has invested his savings in the purchase of a particular "round," established by a predecessor?

Solution of difficulties such as these would be much easier if the State decided to compete with the existing private bodies, with the intention of gradually ousting them from the field, rather than to assume forthwith a monopoly of all Social Insurance. Nationalisation of insurance is, in this respect, different from (say) nationalisation of the railways. In the event of the State undertaking railway transport, it would have to secure the existing railroads first, for competing railway tracks would obviously be out of the question. But in the case of the insurance industry, the fixed capital is of comparatively small amount, and it would be perfectly practicable for the State to supply policies in competition with the existing companies. Decision to compete rather than monopolise would obviate the difficulty of compensation, while it would also stimulate the companies to reduce their management expenses and to give better services.

Nor would the danger of unemployment among the insurance workers be as serious as if the State suddenly assumed complete monopoly of the industry. Absorption of these workers by other occupations would be easier if spread over a period of years. In the meantime, there would be a natural shrinkage in the number of insurance employees through death and retirement, while youths who would normally enter the service of the companies would seek employment elsewhere. In a similar manner, capital that would ordinarily be invested in this section of the

insurance business would seek fresh channels, though the original capital would continue for many years to yield a return.

Lastly, it would hardly be practicable at present to effect a complete State monopoly of Social Insurance unless the State determined to monopolise the entire insurance industry. A large number of workers would want to insure themselves for greater benefits than those provided by the State, and would take advantage of privately administered schemes. Further, there is no hard and fast distinction between burial insurance, so called, and life insurance for larger amounts. The question of the State supplying ordinary life, endowment, and other forms of insurance, not specifically affecting the working classes, and the possibility of the State monopolising the whole of the insurance industry in all its branches, do not come within the present discussion. So far as Social Insurance in the strict sense is concerned, it would appear that, for reasons of both economy and expediency, a policy of State competition is preferable to one of immediate monopoly.

## CHAPTER XIV.

### HOUSING.

There is an intimate connection between the health of the people and the housing conditions in which they live. Overcrowding and ill-health go together, and most public medical officers put unsatisfactory dwellings and surroundings in the first rank of adverse influences.\* Reference to the vital and similar statistics of different districts shows discrepancies that can doubtless be attributed largely to the respective housing conditions in those areas. Thus, the death rate in Hampstead Garden Suburb is considerably lower than that in the East End of London, that of Bournville much lower than the death rate in the industrial parts of Birmingham. In Finsbury the general death rate in 1906 was 6·4 per 1000 in houses of four or more rooms, but 39·0 in one room houses or tenements.

The vicious effects of unhealthy houses are especially marked in infant mortality. In Glasgow in 1913 the death rates per 1,000 were: (a) for infants under 1, 210 in one room houses and 103 in houses of 4 rooms and over; (b) for children between 1 and 5, 41 and 10 respectively.† The

\* A few authorities consider the influence of bad housing on health to be less harmful than is popularly supposed. Professor K. Pearson, for instance, considers that "the effect of home influence is not one-tenth that of heredity." See A. Newsholme, *The Elements or Vital Statistics*, 1923, Ch. XXVI., for the different views.

† A. K. Chalmers, quoted in Newsholme., *op. cit.*, p. 307.

following table shows among other things that the infantile mortality of a Birmingham artisan area with bad housing was nearly twice that of a similar class area in the same town where the housing was of a better standard.

HOUSING AND HEALTH IN BIRMINGHAM, 1912-16.

	(1) Artisan area with bad housing.	(2) Artisan area with fair to good accommodation.
Population .. ..	154,662	133,623
Area (acres) .. ..	1,921	2,998
No. of houses .. ..	33,471	30,172
Birth rate .. ..	32·8	24·0
General death rate .. ..	21·1	12·3
Infantile mortality .. ..	171·0	89·0
Consumptive death rate .. ..	1·95	1·11
Measles .. ..	0·83	0·24
Diarrhoea .. ..	1·46	0·36

Statistics for tuberculosis and other diseases are no less significant. Overcrowding, absence of sunlight, insufficient ventilation and sanitation are conducive to the spread of tuberculosis, which is the cause of 9 per cent. of the total deaths. It is proved that this disease and others are heaviest where the population is overcrowded. Slum clearance and re-housing would enormously reduce the mortality rates, and incidentally would effect a large saving of the money now devoted to combating disease. Further, the present conditions give insufficient privacy and are detrimental to character and sobriety. Reports of crime and intemperance prove that the demolition of slum property and the re-housing of the displaced tenants in better dwellings and surroundings are invariably followed by a general improvement in life and conduct.\*

\* See, for example, J. A. Harford, *Memorandum of the Housing of the Dispossessed in Liverpool*, 1917.

Though the housing question has become extremely acute since the war, it is an error to assume that the problem is a new one, for long before 1914 it seriously engaged the attention of social reformers. In order to understand the rise and present position of the housing problem, it is necessary to go back to the period of the Industrial Revolution to which, as shown in the previous chapters, many of the social ills of to-day can be traced. The history of housing may be roughly divided into four periods, which may be considered separately :—

- (a) 1800-48, the period of *laissez faire* in building ;
- (b) 1848-90, attempts at regulation ;
- (c) 1890-1914, further control and the development of town-planning ;
- (d) The war and post-war period.

The results of the policy of non-intervention are nowhere better illustrated than in the case of house building and town development during the first half of the nineteenth century. The change from the domestic to the factory system of production led to a rapid concentration of the population in industrial and commercial centres. People came literally in millions from the country districts to the towns, and habitations of a sort had to be rapidly provided. In addition, there was a considerable increase in the population during these years, which intensified the need of accommodation. Between 1800 and 1831 the number of inhabited houses increased from about 1½ millions to a little under 3 millions. Neither the State nor the local authorities exercised any effective control over the building. There were no housing laws then, and no standards were set ; no restrictions were imposed as to health and sanitation. Nominal powers were

**Growth of  
the Housing  
Problem.**

**(a) Unrestricted  
and  
Uncontrolled  
Building,  
1800-48.**

possessed by civic commissioners, but their influence in this respect was negligible. Leeds, for instance, was governed before 1825 by 25 people who had the right of electing their successors. Local government was in the hands of bureaucratic boards, which rarely regarded the control of housing as coming within their functions.

As a result, the new towns and extensions of the old ones were built without any regard to system or future requirements. Houses and streets were constructed wherever a suitable space was available; and the only test of suitability was the nearness to the factory. Communication and transport were inadequate and expensive, and people were practically compelled to live in close proximity to their place of work. Overcrowding amidst unhealthy surroundings was the inevitable consequence, and defective sanitation served to make the situation worse. It took two cholera epidemics in the 'thirties to make the people realise the dangers of bad housing and the necessity for better sanitary conditions. The death rate was higher than that of Waterloo. In 1844 a Commission was set up to investigate the housing position in the towns. The Report showed that the general conditions were detrimental to the health of the people; drinking water was found to be tainted in many areas, while the disposal of sewage was very crude. Four years after the appointment of the Commission, the first Act dealing with public health was passed.

The Public Health Act of 1848 was mainly responsible for the killing of typhus in this country. It improved the water supply and compelled authorities to substitute a proper system of drainage for the primeval method of waste disposal hitherto practised. Nothing, however, had yet been done to improve the method of house building and to demolish insanitary houses and districts.

(b) **Regulation  
of House  
Building,  
1848-90.**

In 1851 the Shaftesbury Act gave municipalities the power to borrow money to build houses for workpeople. The Torrens Act of 1869 went further, and empowered municipalities to improve or, if necessary, to demolish individual insanitary houses. The Cross Act of 1875 permitted the clearance of slum districts. But comparatively little was done under these Acts. The position steadily became worse and the number of overcrowded houses and areas multiplied. A certain improvement, however, was effected by the Public Health Act of 1875, under which the Local Government Board issued, two years later, a model code of by-laws regulating the construction of new buildings and streets, and the drainage and sanitation of populated areas. In 1875 it became compulsory for local authorities to appoint a Public Officer of Health. In 1884 a Commission was appointed to inquire into the housing of the working classes, and six years later the comprehensive Housing of the Working Classes Act was passed.

The Act of 1890 served to consolidate and extend the previous legislation. Part I re-enacted in a better form the Cross Acts, *i.e.* it enabled local authorities to demolish entire slum districts. Part II repeated the Torrens Acts, in that it empowered municipalities to improve individual houses and small areas. Part III, like the Shaftesbury Acts, gave local authorities the power to buy land and raise loans for housing the working classes. Parts I and II were compulsory, but Part III was merely permissive. Only 5 per cent. of the new working class houses built between 1890 and 1914 were provided by public authorities. Though the activities under Parts I and II were not extensive, they went ahead of those under Part III, with the result that far more houses were demolished than built. In 1909, Part III became obli-

(c) Consolidation and Extension of Legislation, 1890-1915.

gatory, but comparatively little was done to alleviate the growing famine.\*

A difficulty experienced in pre-war public schemes was that of re-housing the people displaced. This was particularly evident before the compulsion applied in the Act of 1909. London carried out altogether 31 schemes, clearing 93 acres. 43,844 people were displaced and 44,623 were "re-housed" (in block dwellings). "Re-housed," however, is a misnomer since the revised rents that were charged for the new dwellings were too high for most of the people displaced. One of the largest single schemes was in Boundary Street, Bethnal Green, where nearly 15 acres were demolished; only 3 per cent. of the evicted were re-housed by the public scheme. The better-paid workers occupied the new tenements, while those displaced sought other inferior dwellings and thus, in many cases, intensified the over-crowding.

Entire clearance of slum districts is undoubtedly best in the long run, but some municipalities have preferred "patching-up" to thorough demolition and re-construction. As far back as the 'eighties, Birmingham, under the terms of the Cross Acts, had demolished 45 acres north and east of New Street; since this bold beginning, however, the city has preferred to improve and repair small areas; this is much cheaper than clearing, but not so satisfactory. One reason, doubtless, for the lack of enthusiasm to clear slum districts was the heavy burden incurred by the local authorities, the State's share of the

\* The following statistics show the limited action of public authorities in building these houses:

Year ending 31st March, 1911..	464	houses
" " " " 1912..	1,021	"
" " " " 1913..	1,880	"
" " " " 1914..	3,335	"

charge being very little in former years. (Under the Addison scheme of 1919 the State agreed to pay the whole cost in excess of the product from a penny rate.)

The 1911 Census showed that one-tenth of the population was living in overcrowded conditions, and that half a million existed in one room tenements. The situation was really worse than these figures indicate, for the technical definition of overcrowding, viz., more than two adults to a room, children counting as half an adult, is a very unsatisfactory standard. On this basis four adults and eight children could live in a four-roomed house, yet technically not be overcrowded, though it might mean that twelve persons of different sexes might have to crowd into two bedrooms, unless the day rooms were requisitioned ; in any case the conditions would not be conducive to good health. Manchester has recently taken 2·5 persons per *bedroom* as the standard for overcrowding, and though it is far higher than the ordinary standard of two per room (including kitchen, etc.), it is not too generous.

Some critics have attributed the shortage of houses to the 1909 Budget, which, by placing a tax on future unearned land values, is supposed to have discouraged the speculative builder who hitherto provided a large proportion of working class houses. To a certain extent this source of house building may have been restricted as a result of this Budget. The consequences of the fiscal changes, however, have been exaggerated, for the deficiency was becoming acute long before 1909, and could be largely accounted for on other grounds. The few years' operation of the land values scheme (it was abolished shortly after the war except for the mineral royalty duties) could not have seriously affected the real shortage of houses. Building was not adequate to the needs, mainly because a large proportion of the people were earning insufficient wages to

afford a decent habitation. Here again the maldistribution of the national income lies at the root of a grave social question. Were the average wage better, there would be little fear of a housing shortage.\*

During the previous thirty years sundry attempts had been made to improve the structure of towns as well as the method of housing. The average town had grown up without any system or plan, and it was soon forced upon people that a badly constructed town was an evil second only to a badly constructed house. Town planning was not altogether an innovation. Leamington, for instance, in this country, Washington and Paris abroad, had had such schemes, but little had been done to determine the future growth of industrial towns, drawing up in advance the arrangement and distribution of streets, roads, open spaces, etc. Slums develop, they are not built; but it is possible so to devise the construction of new property that it may not ultimately become a slum.

Successful experiments on these lines were undertaken by a few private firms (notably Lever Bros.—Port Sunlight, Cadburys—Bournville, and Rowntrees—Earswick). These schemes, while intending to give the workpeople pleasant surroundings,† were inspired by business acumen

\* "It is probable that on the average between one-sixth and one-fifth of the income of working-class families is spent on rent and rates; the proportion varies inversely with the amount of income. In the case of very poor families, the proportion is sometimes more than one-third." (Report of Land Inquiry Committee, Vol. II, 1913.)

† The houses on these estates, however, are sometimes occupied by people for whom they were not primarily intended. For example, Bournville serves as a residential area for several professional and business people whose work is carried on in Birmingham, while a large number of the workpeople in the Cadbury factories live in less attractive districts.

more than by philanthropy. Enlightened employers have found that it is to their commercial advantage to give healthy houses and environment to their workers. As in the case of better wages and shorter hours, the efficiency of the workpeople is increased, while judicious advertisement of articles produced in garden city surroundings has a distinctly beneficial effect on the sales.

Garden cities have been built at Letchworth and Welwyn. The Hampstead Garden Suburb has shown that it is possible to plan an area directly adjacent to a large town. Apart from the garden cities provided by employers, the working classes do not appear to have benefited to any extent from these schemes. Letchworth and Welwyn contain many relatively well-to-do people who travel up to London for their business, while Hampstead Garden Suburb is even more opulent. The principle of "mixing the classes" in the last named district has not been very successful.

In 1909 the Housing and Town-planning Act supplemented previous legislation. Local authorities were given the power to secure land for town development, in addition to land for clearance which they were already entitled to acquire. They were expected to make provision for the limitation of the number of houses per acre, the harmonising of the "lay-out" of buildings, the planning of roads, the reservation of sites for public buildings and shopping centres, the fixing of minimum distances between houses on opposite sides of the road, the limitation of the number of houses in an unbroken row, the planting of trees and shrubs, and many other amenities.\* Many schemes were undertaken in accordance with the Act of 1909, but the war prevented a large proportion of them from being carried out. Since the war the main call has been for

\* See H. R. Aldridge, *The Case for Town Planning*.

houses, but the need for town planning is only slightly less imperative. There is no reason why the construction of houses and that of whole areas should not form a unified scheme.

As noted above, the housing shortage was becoming felt long before the war. During the decade 1904-14, houses of the working classes were increasing at the average rate of about 60,000 per year\*, but the demand for houses was increasing at a faster rate. During the war, building was practically suspended except in munitions areas. The overcrowding was temporarily alleviated to a certain extent by the occupation of the many empty houses,† and by the fact that millions of men had left their homes for war service. On the other hand, with the natural growth of population and the discontinuance of emigration, this alleviating tendency was soon countered, and at the end of the war the shortage was unprecedented.

It is estimated that the suspension of building alone caused a deficiency of 350,000 houses during the years of war. The return of the service men intensified the situation. Since then the position has steadily grown worse, for the amount of building since the Armistice has not even caught up with the natural growth of population. Roughly 300,000 houses were built between 1918 and

\* See *Returns of Commissioners for Inhabited House Duty*. Statistics of houses exempt from Income Tax Duty (*i.e.* small houses of under £20 annual value) give a more reliable record than the Census returns.

† About 400,000 empty houses existed before the war, and it has been argued therefore that no real shortage existed. But many of these houses were too large, or in other ways unsuitable, for the working classes; the argument evades the essential fact that there was a distinct shortage of houses whose rents the working classes could afford to pay.

1924; it is calculated that the need for at least 500,000 houses was created in the same period. The deficiency, therefore, instead of being reduced, has actually increased.

A thorough housing scheme would have a two-fold object: firstly, the provision of houses to make up the present numerical deficiency; secondly, the demolition of slum dwellings and the construction of new habitations to take their place. Naturally, in the existing shortage, main efforts are concentrated on the first object; too enthusiastic application to the second with insufficient regard to the first would obviously be unwise.

Estimates as to the number of slum dwellings in the country vary considerably, for there is no unanimity as to what actually constitutes such a dwelling.\* Altogether there are less than eight million houses in the country, of which over four-fifths are of the working class type. A national housing survey is badly needed, for unofficial estimates vary considerably. Those authorities who set a high housing standard put the percentage of unsatisfactory dwellings as high as 25 per cent. Even if one took a moderate estimate of 12 per cent., the number of new buildings required *for replacement* would still be a million.†

\* The Land Inquiry Committee defined slums as "dwelling houses whose closeness, narrowness and bad arrangement, or want of light, air, ventilation or proper conveniences or other sanitary defect, is dangerous or prejudicial to the health of the inhabitants, or of those occupying neighbouring buildings" (Report, 1913).

† See the estimates in H. R. Aldridge, *The National Housing Manual*, (1923), pp. 206-7. It is considered that of the 3,500,000 houses that are over 50 years old, 25 to 30 per cent. should be demolished as being unfit for habitation. In rural areas, of the 120,000 necessary new houses, 15,000 houses are required merely to replace houses nearly a century old. Professor Tillyard (*Economic Review*, December 1913) stated that there were in Birmingham between 40,000 and 50,000 back-to-back houses, the homes of at

But, in addition to this, there is an *actual shortage* at the present time of about a million houses. Even if efforts are devoted mainly to making good the numerical deficiency, many years must elapse before this half of the programme is completed, and in the meantime, with the growth of population, the need for houses will have further increased. The official estimate of what is required to remedy the deficiency, to re-house the slum-dweller and to provide for normal increase in population, is  $2\frac{1}{2}$  million houses in fifteen years.\*

As was indicated above, the fundamental reason for the deficient quality and quantity of houses in pre-war days was the inadequate wages received by a large proportion of the workers. This is still a prominent cause, and if the people received on the average a more adequate remuneration for their services they would be in a better position to afford decent living accommodation. The distinction

least 200,000 people ; practically all these houses were built before 1875. The mortality in back-to-back houses is 15 to 20 per cent. greater than in through houses of a similar rent. In Leeds there are 72,000 back-to-back houses, built from seventy to eighty to the acre.

\* Estimates as to the number of houses and the period of time naturally differ. A twenty year programme is outlined by Aldridge (*op. cit.*), who calculates that 125,000 houses ought to be constructed per annum, apart from the 80,000-100,000 required per annum for re-housing the displaced. He arrives at the 125,000 by taking the normal growth of population at 95,000 per annum (80,000 England and Wales and 15,000 Scotland), and adding 30,000 per annum to make up the shortage due to suspension during the war period. It is reckoned that about 60,000—70,000 slum dwellings should be demolished each year. As these are already much overcrowded, at least 80,000—100,000 houses are required to replace them alone. Needless to say, the building of the houses should precede the demolition of the slum dwellings.

drawn by the economist between need and demand is of first importance in this connection. The need of houses is enormous, yet the demand, or the *effective* need, is a small quantity because the market price of a house, either to purchase or rent, is beyond the pocket of the ordinary working man. The theoretical solutions are obvious : either the general rate of wages should be increased, or the cost of the house be decreased, or, preferably, both remedies should be resorted to. The first plan is very desirable, but it can hardly be put forward as an immediate solution of the housing shortage. Efforts should be directed to reducing the cost of building, consistent with good quality of material and workmanship, and a fair reward for the labour employed.

Among the special difficulties at the present time are, (i) the high cost of building, (ii) the shortage of skilled labour, (iii) the effects of the Rent Restriction Acts. These may be briefly examined.

<b>Cost of Building.</b>	The price of building materials, like that of practically everything else, rose considerably during the war. With the increase in the cost of living, the wages of building operatives also rose.
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The cost of building a cottage trebled, on the average, between 1914 and 1921, though there has been a marked decline in the last two or three years. The frequent contention that the increased wages of building operatives were mainly responsible for the extra cost of construction is not justified, for the remuneration of the workers did not increase in nearly the same proportion as the total cost of the houses ; further, many of the workers suffered an actual drop in the *real* wage, *i.e.* in the purchasing capacity of the money income.

But even if the wages had risen in proportion, they would still not have been the main cause of the enormous

increase in the cost of house building, since the labour cost was, on the average, no more than 45 per cent. of the total, and since 1922 has been even less. On the other hand, in so far as the workers have deliberately restricted their output, the increase in the real labour cost has unduly raised the expense of house building. The policy of "ca' canny" is distinctly anti-social: one should remember, however, that it is practised by manufacturers as well as by workers. Employers who intentionally restrict the output in order to force up the price deserve still greater censure. The motive for "ca' canny" on the part of the workers, namely the desire to maintain a standard of life, is less reprehensible than the profit-making motive of the monopolist.

The following table prepared by the Labour Research Department, shows the movement of wage rates in the building trade:

## WAGES RATES IN THE BUILDING TRADE.

Area.	Dec. 1914.	Dec. 1918.	Dec. 1920 Peak Rate.	Dec. 1922.
	per hour.	per hour.	per hour.	per hour.
<i>London—</i>				
Bricklayers	11½d.	1s. 5d. + 12½ per cent.	2s. 4d.	1s. 8d.
Labourers	7½d.	1s. 4½d. + 12½ per cent.	2s. 1d.	1s. 3d.
<i>Manchester—</i>				
Bricklayers	10½d.	1s. 6d. ....	2s. 4d.	1s. 8d.
Labourers	6½d.	1s. 2d. ....	2s. 1d.	1s. 3d.
<i>Exeter—</i>				
Bricklayers	8½d.	1s. ....	2s.	1s. 4½d.
Labourers	5½d.	10d. ....	1s. 9d.	1s. 0½d.
<i>Glasgow—</i>				
Bricklayers	10½d.	1s. 4½d. + 12½ per cent.	2s. 4d.	1s. 8d.
Labourers	—	1s. 0½d. + 12½ per cent.	1s. 11½d.	—

The shortening of the working week from 44½-53½ hours to 44 all round must be taken into consideration when comparing weekly incomes in 1920 and 1922 with those of the previous years.

The manufacturers of building materials have been especially guilty of artificial restriction of supplies. Nearly 90 per cent. of the requisites were recently under the control of firms which, where they were not in actual combination, had a no less effective "understanding" with each other. The Profiteering Committee on Building Materials found that West of England bricks increased in price from 29s. per 1,000 in 1914 to 52s. 8d. in 1918 and to 81s. 6d. in 1920; iron pipes from £7 per ton in 1914 to £23 4s. 6d. in 1920. Tiles rose by about 250 per cent., metal goods by about 250 per cent., and timber by about 300 per cent. It is evident from these figures, which are typical of many others, that the cost of skilled labour did not increase in nearly the same degree as that of materials; while even the greater relative increase in the wages of the unskilled labourers was on the whole less than the increase in the price of important building materials.

Opponents of the "rings" propose that the State should impose maximum prices as it did for staple articles during the war. Others suggest that public authorities should, as far as possible, deal only with non-combine firms; but it is doubtful whether supplies from these would be adequate, especially as several nominally independent firms have secret arrangements with the combine. Another class go further and propose that the State or the municipalities should set up competitive brickyards and factories of their own, as distinct from, or leading up to, nationalisation of the industry. Although the output from the publicly owned yards and factories would probably be insufficient, at least for a time, to supply the large demand for housing materials, it would almost certainly break the hold of the combines, and compel the constituent firms to accept more reasonable prices. A minor economy in house building might be effected by the amendment of the existing practice

whereby contractors and architects receive a percentage of the total costs, irrespective of the total.

The inadequate supply of skilled labour in the building trades presents a more difficult problem than the comparatively high cost of materials. The number of skilled operatives has fallen nearly 50 per cent. since the beginning of the century, as is shown in the following table.\*

NUMBER OF SKILLED CRAFTSMEN (in Thousands).

	1901.	1911.	July 1914.	July 1920.	Feb. 1923.	Jan. 1924.
Bricklayers .. ..	116	103	74	61	59	57
Masons .. ..	73	52	34	22	21	22
Carpenters & Joiners	265	209	126	122	124	125
Slaters .. ..	10	8	4	3	5	5
Plasterers .. ..	31	25	19	14	16	16
Plumbers .. ..	65	65	33	35	33	34
Painters .. ..	160	184	132	109	110	107
Total	720	647	423	366	370	367

The number of skilled craftsmen needed to build 10,000 houses a year are estimated† to be :—

	Parlour House.	Non-Parlour House.
Bricklayers .. ..	2,180	1,688
Carpenters and Joiners	2,060	1,660
Slaters .. ..	206	145
Plasterers .. ..	784	621
Plumbers and Glaziers	397	322
Painters .. ..	760	606
Total	6,387	5,042

\* Incorporating statistics in a paper by F. W. Platt (Housing Director to the Manchester City Council), quoted in Aldridge, *op. cit.* and in the returns of the Ministry of Labour in respect of insured persons in the trade.

† By F. W. Platt, quoted in Aldridge, *op. cit.*, p. 214

Mr. F. W. Platt, commenting on these figures, states that "1,305 plasterers will plaster about 20,000 houses in one year, divided equally into parlour and non-parlour houses. The full strength of the industry is only 16,290 men. Sickness and other causes would probably reduce this number by at least 7 per cent., so that if half were engaged on housing it is doubtful if more than 116,000 houses for the working classes could be finished in one year." \*

The cause of the shortage of labour is not far to seek. Even if there had not been a reduction in the number of craftsmen, there would still be a real shortage owing to the extra building required to make up for the loss caused by the suspension of building during the war. And the more the community recognises its obligation to clear slum areas and re-house the displaced people, the more acute does the shortage of skilled labour become.

Conditions in the building trade do not strongly appeal to parents who are seeking an opening for their boys. The bulk of the work is out-of-doors, and is liable to frequent interruption on account of the weather. So long as the workers are paid on an hour basis, and bear the loss caused by "broken time," there will be reluctance to enter the trade, and dissatisfaction within it. There is much to be said in favour of the demand for the "guaranteed week," which the building operatives enjoyed sixty years ago but were compelled to renounce. It would probably be found that the obligation on the employers to pay a regular wage would induce them to improve the organisation of the trade, and so make up a large part, if not the whole, of the extra charge.†

\* *Ibid.*, p. 215. It should be borne in mind that in normal years considerably more than a half of the skilled labour in the industry is engaged in erecting buildings other than working class dwellings.

† Cf. above, pp. 79-81.

A popular misconception as to the cause of the shortage of skilled labour in the building trade may be disposed of. It is frequently stated that the trade unions have deliberately brought about the shortage by stringent limitations on apprenticeship. The facts prove this criticism to be ill-founded. Inquiry into the number of apprentices who entered the trade during the last few years shows that it is actually less than the number permitted under the agreements between the operatives and the employers. This only emphasises the unattractiveness of the building trade as at present conducted.\*

One of the more immediate causes of the cessation of house building has been the legislation of the war and post-war period, restraining landlords from raising the rents of the lower-priced houses beyond a limited amount. The first Rent Restriction Act, passed in December 1915, forbade any increase whatever in rents of houses whose pre-war rent did not exceed £35 per annun in London, £30 in Scotland,

**Restriction of Rents.** \* The shortage of labour has given rise to many suggestions and experiments. Some people, for example, recommend greater use of concrete; others favour the erection of "steel" houses. Objection is often raised against these dwellings for the reason they are claimed to be less durable than brick buildings. The importance of this criticism, however, is apt to be exaggerated. Should durability be the principal object of the house builder? Should a dwelling be built to last a century or more? However satisfactory and modernised a building may be when constructed, it is likely to be antiquated in fifty years' time. There is also the important consideration that the cost of building a house not intended to last more than three generations would be considerably less than that of erecting the more durable dwellings.

The opposition from the building operatives against the "steel" houses is of a different character. The construction of the "Weir" and similar houses is mainly an engineering task, and does not need much building labour in the ordinary sense. The builders' unions are not opposed to the erection of "Weir" houses as such; indeed,

and £26 in the provinces ; the Act was to remain in force until six months after the end of the war. In 1919 it was found necessary to extend the Act until March 1921, but certain concessions were granted to the landlords, who were permitted to raise the pre-war rent (excluding rates) by 10 per cent. At the same time the higher-rented houses came within the scope of the Act, viz., £70 in London, £60 in Scotland, and £52 in the provinces. The anticipated supply of new houses not having materialised, a further Act in 1920 extended the period until September 1923. The limit was further raised to £105 in London, £90 in Scotland, and £78 in the provinces. In 1923 the period was extended, subject to certain provisions, to June 1925. Provision was also made for a further five years of modified control from 1925 to 1930.

The limitation of rents meant, of course, that with the general rise in prices the real return to investments in property, let to the working and lower middle classes, proportionately declined. The fixed rents of all the pre-war houses of this class would necessarily have a depressing effect on the rents that could be charged for new houses. Capitalists and builders could not be expected to construct new dwellings when the rents to be received would be appreciably below the return that could easily be obtained from other forms of investments. So long as an "economic

their case would be very weak if they attempted merely to retard a new development in house building that seems inevitable. Nor is their attack really directed against the employment of engineers on tasks that are closely allied to ordinary building work. The principal reason for the building operatives' attitude to the erection of "steel" houses is their fear that the employment of comparatively cheap semi-skilled engineering labour will undermine the standards of pay in the building trades. The new schemes are still in their infancy, and it is much too early to say to what extent the builders' standard of life will be affected, if at all.

rent"\* was not forthcoming, new property would not be built. Consequently there is a vicious circle. Restriction of rents curtails house building; inadequate supply of houses tends to force rents up, and, to prevent this, tenants insist on the continuance of the Rent Restriction Acts. The negative policy of restricting rents is insufficient by itself, for, though it affords protection to tenants, it does nothing to supply new houses. Conditions necessarily become worse as the population grows.

The removal of the restrictions at the present time would immediately be followed by a rise in the rents of the houses affected. In most cases the new rent would be beyond the means of the tenant, and a demand for higher wages would inevitably result. It has been shown if a sufficient increase in wages could be ensured the main problem would be solved. But this could not be effected by Act of Parliament, and if left to collective bargaining the negotiations would be lengthy and by no means uniform in their results. Much friction could be caused, and a large proportion of the workers would fail to secure the requisite addition to their wages. Hardship would also be inflicted on small tradesmen, professional and other people, whose incomes could not be adjusted in this manner.

The various Governments since the war have not deemed it advisable to remove the restrictions, yet they have sought to increase the supply of new houses. They have had to choose between the policy of granting subsidies to builders and tenants and that of building houses with direct labour. The method so far has been to rely

State  
Subsidies  
and State  
Housing.

\* This term, meaning here the minimum return accruing from an investment of capital, must be distinguished from that in the technical sense employed by the economist to indicate a "net differential advantage." See any standard work on economics.

almost entirely on subsidies to encourage local authorities and private builders to construct houses for the working classes. If the State were to provide houses directly to the people, the subsidy would almost certainly continue, though it would not be so open. Tenants would receive their houses at an "uneconomic rent," the difference between this and the actual cost being borne by the tax-payer.

This form of subsidy would bring the provision of houses into line with other public services, which are not priced at a strictly "commercial" value. It is in the public interests for municipalities to provide pure drinking water at a nominal cost rather than imperil the health of the very poor who could not afford to pay a higher charge. Elementary education and, to a smaller extent, secondary education also come within the category of subsidised services.

The rule that the State is justified in intervening where private enterprise fails to supply an essential commodity or service in adequate quantity or quality may be properly applied to housing. Private enterprise in house building has, for the last twenty years, inadequately supplied the needs of the people. The building trade itself is not primarily to blame, for, as emphasised previously, the responsibility rests largely on the deficient wages paid to a large mass of the population. So long as the workers cannot afford to pay the commercial rent, new houses will not be built by private enterprise except with a subsidy. If this form of subsidy is socially justified—and one rarely hears this denied nowadays—there is no less justification for a subsidy towards the rent paid by the working class tenant of a house, built and provided directly by the public authority. The opinion that housing has passed into the same class of service as road construction, sanitation, education, etc. is gradually gaining ground.

In the previous pages the review of housing legislation has been carried down to 1909. The war suspended practically all activities under the Act of that year, and when hostilities ceased the situation was unparalleled. In 1919, under the Addison plan, Parliament imposed on local authorities the duty of preparing a scheme for the provision of working class houses, which were to be constructed either by the local authorities with direct labour, or by Public Utility Societies,\* or by private builders. The State was to bear most of the cost, the liability of the local authorities being limited to the proceeds of a penny rate. Subsidies were given to Public Utility Societies, and, in a supplementary Act of the same year, to private persons erecting working class houses. The State laid down minimum conditions as to the quality of the houses, while it also advanced town planning by limiting the number of houses to the acre, by providing for slum clearance, and by simplifying the machinery of such schemes.

The local authorities built comparatively few houses themselves, depending mainly on private enterprise. The notorious increase in the price of building materials that followed has already been mentioned. Owing to its costliness the Addison scheme was dropped in 1922. About 176,000 houses to be built by local authorities and Public Utility Societies had been sanctioned under the scheme,

\* Public Utility Societies are composed of persons who desire to build on a co-operative basis, or of employers who wish to provide houses for their workpeople. The maximum dividend was fixed before the war at 5 per cent. and stands now at 6 per cent. The Act of 1909 permitted them to borrow two-thirds of the approved cost from the Public Works Loan Board; in 1919 the proportion was increased to three-quarters.

the average cost working out at £1,000 each. Some 40,000 subsidised houses were erected by private builders. The policy of 1922 was to suspend State grants, in the expectation that the cost of building would fall. A drop in the cost of house building actually followed, though part of the reduction was doubtless due to the general forces that were bringing about a decrease in the average level of prices. By 1923, approved houses were being erected at less than £500 each. Wages in the building trade fell more than the cost of materials, the proportion of labour costs being reduced from about 45 to 35 per cent.

Under the Act of 1919 the liability of the local authority had been limited, that of the State unlimited. In 1923 a new housing scheme was instituted. **The Chamberlain Scheme, 1923.** The State was to give a subsidy through local authorities to private enterprise of £6 per annum for a period of twenty years. The local authority was not obliged to add to the subsidy from the rates, but was empowered to do so if it desired. It was expected that this subsidy would stimulate private enterprise to supply an adequate number of houses. Unfortunately the Act of 1923 permitted a reduction in the size of the house, and an increase in the number to the acre (maximum of 24). Local authorities were permitted to grant loans to people, who wished to build working-class houses for their own occupation, of amounts up to 90 per cent. of the market value.\*

\* The middle classes were assisted by loans towards the erection of houses that were too large to rank for subsidy. The value of such houses was raised from £800, laid down in the Small Dwellings Acquisition Act of 1899, to £1,200. Many workers resented this concession at the time when the standards for their own houses were being cut down.

By the beginning of September, 1924, about 8,500 houses had been built under the Chamberlain Act, by local authorities, and 18,000 by private enterprise, and twice as many in each category were under construction.

An important change in housing policy was effected by the Labour Government in 1924. It was maintained that the previous legislation had proved inadequate in that (a) the building programme was much too slow ; (b) that the houses built by local authorities were let at too high rents for the average wage-earner ; (c) that the subsidised houses provided by private enterprise were in nearly all cases offered for sale at prices beyond the capacity of the working classes ; and (d) that owing to peculiar difficulties in rural areas very few houses for agricultural workers were being constructed.

The Wheatley Act of 1924 attempted to remedy these deficiencies. Firstly, it laid down a continuous building programme for a period of fifteen years. A Committee representing the building trade employers and operatives stated\* that in this period 2,500,000 houses could be built ; that the number constructed each year would increase from 90,000 in 1925 to 225,000 in 1934, and remain at the latter figure for the remainder of the period ; but went on to say that a condition of this growing supply of houses was an increase in the number of apprentices to the trade, which would be secured if the maximum age for the admission of apprentices were raised from sixteen to twenty. The Wheatley Act gave the authorities the power to discontinue the scheme if in any third year (*i.e.* 1927, 1930, etc.) the number of houses completed during the preceding two years

\* Report, 1924 (Cmd. 2104).

were found to be less than two-thirds of the figures stipulated in the Schedule to the Act.\*

Secondly, in respect of houses subject to special conditions, the annual subsidy was increased from £6 for twenty years to £9 for forty years. The special conditions were (a) that the houses should be let, and not sold, except with the consent of the Minister of Health ; (b) that the tenant should not without permission assign or sub-let the house or any part thereof ; (c) that the local authorities should not dispose of the houses without the permission of the Minister of Health ; (d) that a fair wages clause should be inserted in all contracts for the construction of the houses ; (e) that the rents of these houses should not be higher than the appropriate normal rents charged in respect of pre-war working class houses, except where the estimated loss per house was in excess of £4 10s. per annum for the forty years, in which case the rent could be increased by the amount of this excess ; and (f) that reasonable preference should be given to large families in letting the houses. Should these special conditions not be complied with, the subsidy could be reduced to £6. In the case of houses constructed in an agricultural parish the subsidy was increased to £12 10s. per annum. The Wheatley Act also continued for fifteen years those provisions of the Chamberlain Act that were temporary in nature.

With regard to building materials, a Bill was prepared dealing with the unreasonable prices and the withholding of supplies, but was not passed before the change in Govern-

\* This Schedule is as follows :—

Years.	Number of Houses.
1925-1926	190,009
1928-1929	255,000
1931-1932	360,000
1934-1935	450,000

ment. So far no effective measure has been adopted to prevent profiteering in building materials.

At the present time, both the Chamberlain and the Wheatley schemes are in operation. Where the special conditions of the Act of 1924 are considered too restrictive, resort is being made to the Chamberlain scheme. Where, on the other hand, local authorities and private builders are prepared to accept those special conditions, advantage is being taken of the higher subsidy afforded by the Wheatley Act.

The responsibility for building houses for the working-classes will be the subject of much discussion during the next few years. At the one extreme is the thorough individualist, who objects to State intervention in any form, and would leave the matter entirely to the forces of free competition. It is exceedingly doubtful whether private enterprise, working without any State subvention whatever, could extricate the people from their present difficulty. The unfettered operation of the "law of supply and demand" would, at the present time particularly, cause much suffering, and the advocates of this crude method are now very few. Many a man who calls himself an individualist to-day would have been termed a Socialist half-a-century ago. It is no longer a question of *whether* the State should intervene in house building, but *how far* public enterprise should be extended. It is being increasingly recognised that private enterprise cannot provide a final solution of the problem.

Certain writers who would still pin most of their faith to private enterprise recommend that as a temporary measure new houses should be exempt from part of the local rates. The tenants of these houses would still pay the same inclusive figure as before, but a part of the sum which hitherto went as rates to the local authorities would now

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go to the owner of the house, thus providing an "economic rent." The deficit would be borne by the taxpayer, who on the other hand would be freed from the payment of direct subsidies.\*

In one suggested scheme,† the transfer from the rates to the house owner is calculated in the following manner. It is pointed out, first, that local expenditure is of two kinds; money spent on "personal" services (*e.g.* education, police protection, etc.), and that spent on "property" services (*e.g.* construction and maintenance of roads, sewage, etc.). The proportions of "personal" and "property" expenditure are about 80 and 20 per cent. respectively. It is proposed to exempt the tenants of new houses from the "personal" rate for a number of years, while retaining the present method of rating for houses already constructed.§ The advocates claim that the higher rent to the landlord would produce a greater supply of houses, while the temporary loss to the rates would be compensated in other directions, partly by the reduction in the present form of subsidy (presumably the State would shoulder the bulk of the burden), and partly by the increased ratable value that would ultimately accrue.

If this scheme were adopted, one form of subsidy would merely take the place of another. Fundamentally there

\* Such a plan has been experimented with in New Jersey and several other American cities, but not with any particular success. Certain Ulster County Councils, taking advantage of the new Housing Act passed by the Northern Ireland Parliament, have decided to charge no rates for a period of five years on houses built before April 1st, 1926. † Simon, *Housing for All*, p. 19.

§ Suppose the rent of the new houses, in the ordinary way, to be 9s. and the rates 5s. Of the latter figure, adopting the above proportion, 4s. would be the "personal" rate. In the scheme proposed, the tenant would still pay the inclusive figure of 14s., but instead of 9s. going to the landlord and 5s. to the local authority, 13s. would go to the former, and only 1s. to the latter.

is no difference between a public grant towards the cost of building a house, and the indirect subsidy by the remission of rates. If nothing else could be adduced in its favour, the proposal would not carry much weight. The supporters, however, maintain that it would provide a greater spur to private building than the present method of subsidy. But it is difficult to see why this should be so, provided that the direct subsidy worked out at roughly the same amount as the sum transferred from the rates to the landlord. A straightforward subsidy is much simpler, and cheaper to administer, than the more complicated method of rate remission. The real significance of the proposal lies in the emphasis it places on private enterprise, in preference to a publicly managed scheme for the direct supply of houses.

The increasing number of people who favour the public supply of houses fall into two groups. Firstly, there are the Socialists who have always regarded this service as the proper function of the State. Secondly, there are those who on theoretical grounds and in ordinary times object to State intervention in economic affairs, yet are inclined to make an exception in the case of housing supply ; they are prepared to sacrifice a general principle in view of the urgency of the problem. It is universally admitted that the number of the houses should be considerably and quickly increased, and that people living in slum dwellings should be provided with new habitations. The case for private enterprise rests on the assumption that it can give a better service than a public authority, and where the superiority of service is proved the case is a strong one. It has been shown, however, that in the housing of the people private enterprise has proved very inadequate. The deficiency in quality is even worse

than the insufficiency in quantity. It is no longer pretended that the demolition of slums, together with the re-housing of the displaced, is the function of any other body than the State and the local authorities.

State provision of houses is also advocated on the grounds that the production would be more economical if the organisation were on a national scale. The production of bricks and other building materials does not call for unusual enterprise, while national factories for turning out large masses of window frames, girders, pipes and other component parts would effect a greater degree of standardisation and lessen the cost of production. The houses themselves need not be standardised; indeed, they could not be more monotonously designed and arranged than the houses built by private enterprise.

In town planning, the public authority is admittedly more effective than private enterprise. The builder in the past has often been driven to pack the houses closely together owing to the high cost of land and the obstinacy of many land owners. The State has the power to compel the owners to sell their land at a reasonable price, and where private estates are restricting the healthy growth of towns this power should be fully used. The public authority already has extensive powers over the "lay-out" of new buildings, and the arrangement of new districts; it already constructs the roads and provides for the sanitation; it already supplies the majority of the population with water, gas and electricity. To proceed from this to the manufacture of building materials and the erection of houses for the working classes would not be a long step.

Publicly owned houses would be let to the people at rents suitable to their incomes. Unless the remuneration of the poorly-paid wage-earners were adequately increased, the State would have to bear part of the cost of the houses.

From the social point of view, it is better to spend public money on decent housing accommodation than to allow a large mass of the population to live in overcrowded dwellings amidst unwholesome surroundings. And, from the narrower financial standpoint, it is more profitable to disburse money in advance than to allow disease to spread, and *then* expend large sums in patching up, where it is not too late, the evils that could have been largely avoided. The saving in public expenditure on the treatment of the preventable diseases would more than cover the cash outlay involved in the provision of adequate houses. What was at first a subsidy would turn out to be an admirable investment.

## APPENDIX A.\*

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### OPERATION OF TRADE BOARDS ACTS.†

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#### General Conclusions of Committee of Inquiry.

“ Upon a review of the evidence given on both sides with reference to the above matters we come to the conclusion that, while the effect of the Trade Board system on trade and industry has occasionally been stated in terms of exaggeration, there is substance in the allegation that the operations of some of the Boards have contributed to the volume of trade depression and unemployment.

“ Where so many influences have tended to bring about these results, it would be rash to attribute a definite share in them to any particular cause ; but, unfortunately for the Trade Board system, many of the increases in wages settled by the Boards came into operation at a moment when trade was falling, and we are satisfied that in some instances the additional burden so imposed on traders made it difficult for those traders to adjust themselves to the altered conditions. Within certain limits, an increase in the cost of production can be ‘ passed on ’ to the consumer, with the result that the general level of prices is raised and the

\* The extracts given in these Appendices are reproduced by permission of the Controller of H.M. Stationery Office.

† *Report on Working and Effects of the Trade Boards Acts, 1922* (Cmd. 1645).

consumer (including the worker) suffers accordingly ; but in time a point is reached where the consumer ceases to buy, and then follow decline of trade, the closing of workshops, short time, and the discharge of workers. This result is more quickly reached where the trade is subject to foreign competition and the prices are regulated, not by the home market, but by world conditions ; but even where this is not the case, increase in cost must prejudicially affect production and distribution, and so must be injurious both to employers and to workers. As regards workers, the blow is apt to fall first on the slow or less efficient worker ; but the consequence of the rigid regulation of wages in a falling market and the consequent ' lag ' in the readjustment of wage conditions are not confined to those persons, but extend to the unskilled and part-skilled worker throughout the industries affected.

" On the other hand, we think it is established that the system has had beneficial effects . . . .

" It has been stated by a number of employers' organisations, especially by those interested in trades to which the Act of 1909 was applied, that, as a result of the operations of Trade Boards, the conditions of the poorer and less skilled workers in the organised trades, and particularly of women workers, have been substantially improved ; and it appears to us that, speaking generally, Trade Boards have succeeded in abolishing the grosser forms of underpayment, and regularising wages conditions in trades brought under the Acts. Moreover, in establishing statutory minima Trade Boards have afforded protection to the good employer, able and willing to pay a reasonable rate of remuneration to his workers, from unscrupulous competitors, prepared to take unfair advantage of the economic necessities of their workers. The existence of such competition has been stated by employers to have been an important factor in

preventing a general improvement in conditions in their trades in the past. Nor must it be overlooked that in some instances the enforcement of higher rates of wages has acted as a stimulus to improvement in working methods; and our attention has been drawn to cases in which improvements in machinery and organisation so brought about have increased production and thus have enabled the earnings of piece-workers to reach the statutory basis without any increase in the actual piece-rates paid. In this connection we wish to draw attention to the good work performed by certain Boards of craft industries in encouraging the revival of apprenticeship and in placing the industrial training of juveniles on a sound and progressive basis.

“ We are also satisfied that the operation of the system has contributed, on the whole, to the improvement of industrial relations; and this effect is especially marked in the case of the trades of which the Act of 1909 was applied and which have had the longest experience of the working of the system. It has been stated that in a number of trades, where previously no machinery for joint negotiation of any kind existed, an atmosphere of suspicion and distrust separated employers and workpeople, and sporadic local disputes were frequent. The working of the Trade Board machinery by bringing the two sides together to discuss wages questions ‘round a table’ has, in most cases, enabled each side to understand something of the other’s point of view, and so has contributed to the growth of more satisfactory relations between the two sides, and has tended to prevent the occurrence of industrial disputes.

“ Finally, we think that it is established that the operation of the system has led to a strengthening in organisation on both sides.

“ In considering any proposal for an alteration of the law

we think it important, while having due regard to the reasonable complaints of employers, not to lose sight of the permanent benefits which the operation of the system has produced.

“ We conclude then, that, while there are beneficial results to be recorded, there are also faults to be remedied ; and we proceed to consider the remedies which are proposed.”

### Recommendations.

The following were the chief recommendations of the Committee :—

“ (1) That the power of the Minister of Labour to apply the Acts to a trade be confined to cases where he is satisfied (a) that the rate of wages prevailing in the trade or any branch of the trade is unduly low as compared with those in other employments ; and (b) that no adequate machinery exists for the effective regulation of wages throughout the trade.

“ (2) That in any case in which the Minister considers that a *prima facie* case exists for applying the Acts to any trade, he shall cause a public enquiry to be held into the matter and shall have regard to the report of such enquiry.

“ (3) That it be the duty of a Trade Board to fix—

(a) a general minimum time-rate for the general body of workers in the trade, such rate to be fixed with reference to the lowest grade of ordinary workers in the trade ;

and that a Trade Board be authorised to fix—

(b) if so authorised by Order of the Minister of Labour, a special minimum time-rate for workers performing work ancillary to that performed by the general body of workers ;

(c) a piece-work basis time-rate ;

- (d) a guaranteed time-rate for piece-workers ;
- (e) minimum piece-rates for out- or home-workers engaged in piece-work in the trade ;
- (f) overtime rates based upon the above rates ;

and that such rates, when confirmed, be enforceable in manner now provided by the Trade Boards Acts.

“ (4) That a Trade Board have power to fix—

- (a) special minimum time-rates for special classes of workers in the trade or workers engaged in any special process ;
- (b) minimum piece-rates for in-workers ;
- (c) special minimum piece-rates for in-workers to be fixed on the application of an individual employer to apply in respect of workers employed by him ;
- (d) overtime rates based upon the above rates ;

and to apply for confirmation of such rates, and that such rates, if confirmed, be recoverable by civil proceedings only . . . ”

and sundry other recommendations, making 34 altogether, the last of which reads—

“ (34) That the Trade Boards Acts be repealed and a Consolidating Act containing the necessary amendments be passed.”

## APPENDIX B.

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### MEN'S AND WOMEN'S WAGES.\*

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Recommendations of the Majority of the War Cabinet Committee as to principles that should govern the future relations between men's and women's wages.

It was recommended :—

“(1) That women doing similar or the same work as men should receive equal pay for equal work in the sense that pay should be in proportion to efficient output. This covers the principle that on systems of payment by results equal payment should be made to women as to men for an equal amount of work done.

“(2) That the relative value of the work done by women and men on time on the same or similar jobs should be agreed between employers and Trade Unions acting through the recognised channels of negotiation, as, for instance, Trade Boards or Joint Industrial Councils.

“(3) That where it is desired to introduce women to do the whole of a man's job and it is recognised that either immediately or after a probationary period they are of efficiency equal to that of the men, they should be paid either immediately or after a probationary period, the length and conditions of which should be definitely laid down, the men's time rate.

\* *Report of the War Cabinet Committee on Women in Industry, 1919* (Cmd. 135).

“(4) That where there has been sub-division of a man’s job or work without any *bona fide* simplification of processes or machine and a woman is put on to do a part only of the job or work, the wages should be regulated so that the labour cost to the employer of the whole job should not be lessened while the payment to the persons engaged on it should be proportioned to their respective labour contributions.

“(5) That where the introduction of women follows on *bona fide* simplification of process or machine, the time rates for the simplified process or simplified machine should be determined as if this was to be allocated to male labour less skilled than the male labour employed before simplification, and women, if their introduction is agreed to, should only receive less than the unskilled man’s rate if, and to the extent that, their work is of less value.

“(6) That in every case in which the employer maintains that a woman’s work produces less than a man’s, the burden of proof should rest on the employer, who should also have to produce evidence of the lower value of the woman’s work to which the fixed sum to be deducted from the man’s rate for the particular job throughout the whole of the industry should strictly correspond.

“(7) That every job on which women are employed doing the same work as men for less wages should be considered a man’s job for the purpose of fixing women’s wages, and the wages should be regulated in the manner above recommended.

(8) “That the employment of women in commercial and clerical occupations especially requires regulation in accordance with the principle of ‘equal pay for equal work.’

(9) “That in order to maintain the principle of ‘equal pay for equal work’ in cases where it is essential to employ men and women of the same grade, capacity and training,

but where equal pay will not attract the same grade of man as of woman, it may be necessary to counteract the difference of attractiveness by the payment to married men of children's allowances, and that this subject should receive careful consideration from His Majesty's Government in connection with payments to teachers to which the Government contribute.

“(10) That the principle of ‘equal pay for equal work’ should be early and fully adopted for the manipulative branches of the Civil Service and that in the case of Post Office duties, the question of the men having late hours or night work should be provided for by an extra allowance to persons undertaking common duties under disagreeable conditions.

“(11) That this principle with regard to allowances to persons undertaking common duties under disagreeable conditions should be applied also to industry.

“(12) That if the Treasury enquiry advocated by the Royal Commission on the Civil Service with the object of removing inequalities of salary not based on differences in the efficiency of the services has not yet been held, it should be put in hand with the least possible delay.

“(13) That the separate grades and separate examinations for women clerks in the Civil Service should be abolished, but that the Government Departments should retain within their discretion the proportion of women to be employed in any branch or grade.

“(14) That the Government should support the application to industry of the principle of ‘equal pay for equal work’ by applying it with the least possible delay to their own establishments, and that as soon as any relation between the wages of men and women in any occupation or job has been agreed between employers and Trade Unions acting through the recognised channels of negotiation,

the maintenance of that relation should be a condition of any Government contract involving the employment of workpeople in that occupation or job."

The Committee also made the following recommendations, among others, as to principles that should govern the wages of women :—

"That in order to maintain and secure physical health and efficiency no normal woman should be employed for less than a reasonable subsistence wage.

"That this wage should be sufficient to provide a single woman over 18 years of age . . . with an adequate dietary, with lodging to include fuel and light . . . with clothing sufficient for warmth, cleanliness and decent appearance, with money for fares, insurance and Trade Union subscriptions, and with a reasonable sum for holidays, amusements, etc.

"That this wage should be adjusted periodically to meet variation in the cost of living.

"That the determination of the basic subsistence wage should be by a specially constituted authority which should also determine variations from it to meet the conditions of different districts and of different times or in rare cases special conditions of trade."

## APPENDIX C.

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### ESTABLISHMENT AND PROGRESS OF JOINT INDUSTRIAL COUNCILS, 1917-1922.\*

A sub-committee of the Reconstruction committee was established in October, 1916,

“(1) To make and consider suggestions for securing a permanent improvement in the relations between employers and workmen.

“(2) To recommend means for securing that industrial conditions affecting the relations between employers and workmen shall be systematically reviewed by those concerned, with a view to improving conditions in the future.”

#### **The First Whitley Report.**

The first (interim) Report of the Committee was signed on 9th March, 1917. It recommended, in view of the necessity of the continued co-operation of all classes after the war, and especially of employers and employed, “the establishments for each industry of an organisation representative of employers and workpeople to have as its object the regular consideration of matters affecting the progress and well-being of the trade from the point of view of all those engaged in it, so far as this is consistent with the general interest of the community.”

“The means to this end suggested by the Committee

\* Adapted from the *Report on the Establishment and Progress of Joint Industrial Councils*, 1923.

were, briefly, that the Government should propose without delay to the various organisations of employers and employed the formation of Joint Standing Industrial Councils in the several industries. The Councils, it was proposed, should consist of representatives of the associations of employers and workpeople meeting at regular and frequent intervals for the consideration of such matters as :—

- “ (1) The better utilisation of the practical knowledge and experience of the workpeople.
- “ (2) Means for securing for the workpeople a greater share in and responsibility for the determination and observance of the conditions under which their work is carried on.
- “ (3) The settlement of the general principles governing the conditions of employment, including the methods of fixing, paying and re-adjusting wages, having regard to the need for securing to the workpeople a share in the increased prosperity of the industry.
- “ (4) The establishment of regular methods of negotiation for issues arising between employers and workpeople, with a view both to the prevention of differences, and to their better adjustment when they appear.
- “ (5) Means of ensuring to the workpeople the greatest possible security of earnings and employment, without undue restriction upon change of occupation or employer.
- “ (6) Methods of fixing and adjusting earnings, piecework prices, etc., and of dealing with the many difficulties which arise with regard to the method and amount of payment apart from the fixing of general standard rates, which are already covered by paragraph (3).

- “(7) Technical education and training.
- “(8) Industrial research and the full utilisation of its results.
- “(9) The provision of facilities for the full consideration and utilisation of inventions and improvements designed by workpeople, and for the adequate safeguarding of the rights of the designers of such improvements.
- “(10) Improvements of processes, machinery and organisation of appropriate questions relating to management and the examination of industrial experiments, with special reference to co-operation in carrying new ideas into effect and full consideration of the workpeople's point of view in relation to them.
- “(11) Proposed legislation affecting the industry.”

The Report further recommended that District Councils, similarly representative of associations of employers and employed engaged in the industry, and Works Committees representative of the management and of the workers in particular establishments, should be set up in conjunction with the National Councils ; it suggested that the formation of detailed schemes and terms of reference should be decided upon jointly by the parties themselves, and that the functions of the Government should be confined to acting in an advisory capacity when requested to do so.

The following quotations from the Report illustrate the general basis of the scheme :—

“ It may be desirable to state here on considered opinion that an essential condition of securing a permanent improvement in the relations between employers and employed is that there should be adequate organisation on the part of both employers and workpeople . . . We are convinced, moreover, that a permanent improvement in the

relations between employers and employed must be founded upon something other than a cash basis. What is wanted is that the workpeople should have a greater opportunity of participating in the discussion about and adjustment of those parts of industry by which they are most affected . . . We venture to hope that representative men in each industry, with pride in their calling and care for its place as a contributor to the national well-being, will come together in the manner here suggested, and apply themselves to promoting industrial harmony and efficiency and removing the obstacles that have hitherto stood in the way."

In answer to certain questions submitted by the Main Reconstruction Committee, the Sub-Committee emphasised the following points :—

- " (1) That the proposals of the first Interim Report referred more particularly to industries in which organisation on both sides was fairly well developed.
- " (2) That the proposed Joint Industrial Councils would not necessarily disturb existing machinery.
- " (3) That the Councils would be composed only of representatives of Trade Unions and Employers' Associations, and that other organisations would be admitted only with the approval of the side of the Council concerned.
- " (4) That agreements reached by the Councils should carry the same binding force as in the case of other industrial agreements negotiated between representative bodies, but should not possess the force of law.
- " (5) That all pledges relating to the restoration of Trade Union rules should remain unaffected by the establishment of the Councils."

**The Second Report (on Less Organised Industries).**

In October, 1917, the Second Report, dealing with the less organised industries, was published. The main recommendations were :—

- “ (1) That, in industries where there are representative Associations on either side which do not possess the authority of the organisations in industries to which the first report had reference, the National Industrial Council should comprise either one or two representatives of the Ministry of Labour, acting without voting power in an advisory capacity and as a link with the Government.
- “ (2) That, in unorganised areas or branches of an industry for which a National Industrial Council was established, Trade Boards for such areas or branches should be set up on the application of the National Industrial Council and that the National Industrial Council should be represented thereon ; or, alternatively, that in such cases the National Industrial Council itself should be constituted a Trade Board under the provisions of the Trade Boards Act.
- “ (3) That, in industries having no adequate organisation of employers or employed, Trade Boards should be continued or established, and that these should with the approval of the Ministry of Labour, be enabled to formulate a scheme for an Industrial Council, which might be constituted when organisation in such industries was more fully developed . . .

“ In connection with the operation of Trade Boards, the Committee made certain proposals in regard to an extension

of scope of these bodies. For the execution of these proposals the Committee pointed out that legislation would be necessary to provide that the Trade Boards should have power :—

“ (1) To deal with hours of labour and questions cognate to wages and hours, in addition to determining minimum rates of wages.

“ (2) To initiate inquiries and make proposals to the Government Departments concerned on matters affecting the industrial conditions of the trade, as well as on questions of general interest to the industries concerned respectively.”

**The Third Report (on Works Committees).**

A Third Report on Works Committees was published in March, 1918 ; it stated :—

“ Sometimes introduced with difficulty and amid suspicion, committees have established themselves and done service which is acknowledged even by their original opponents. By providing a channel for the ventilation of grievances at an early stage, and before they become acute, they have prevented disputes and strikes, and they have improved timekeeping and increased output. Nor is this all. The functions of Works Committees are not merely concerned with bringing grievances before the management, but also with a preliminary enquiry into grievances, in order to decide whether they are well-grounded and serious enough to be brought before the management. The work which they do in this preliminary stage is not the least valuable part of their work, and, far from hampering the management, it obviously does the reverse and relieves the management of difficulties and grievances it would otherwise have to face. Grievances are either nipped in the bud by being shown, upon discussion in committee, to be un-

founded, or they are settled in discussion between the secretary of the committee and the foreman or head of the department, and in either case they never come to the main management."

With regard to the functions of Works Committees, the Report referred to the fact that there were certain questions such as rates of wages and hours of work which should be settled by District or National agreement, and that with any matter so settled no Works Committee should be allowed to interfere. It pointed out, however, that there were many questions affecting both the conduct, the comfort and the efficiency of working which are peculiar to the individual workshop or factory. "The purpose of a Works Committee," the Report stated, "is to establish and maintain a system of co-operation in all these workshop matters."

The Report further stated that Works Committees would fail in their main purpose if they existed only to smooth over grievances. "They should always keep in the forefront the idea of constructive co-operation in the improvement of the industry to which they belong. Suggestions of all kinds tending to improvement should be freely discussed. Practical proposals should be examined from all points of view."

#### **The Fourth Report (on Conciliation and Arbitration).**

The Committee further inquired into the problem of conciliation and arbitration. The following extracts indicate the main conclusions :—

"We are opposed to any system of Compulsory Arbitration ; there is no reason to believe that such a system is generally desired by employers and employed and, in the absence of such general acceptance, it is obvious that its imposition would lead to unrest. The experience of Com-

pulsory Arbitration during the war has shown that it is not a successful method of avoiding strikes, and in normal times it would undoubtedly prove even less successful . . . For the same reason we do not recommend any scheme relating to conciliation which compulsorily prevents strikes or lock-outs pending inquiry . . .

“ We desire to emphasise the advisability of a continuance, as far as possible, of the present system whereby industries make their own agreements and settle their differences themselves.

“ We suggest that the Ministry of Labour should be authorised to hold full inquiry when satisfied that it was desirable, without prejudice to the power of the disputing parties to declare a strike or lock-out before or during the progress of the inquiry . . . Presumably the existing Act empowers the Ministry of Labour to publish reports made as a result of inquiries of this character, but, if not, the necessary power should be obtained, so that there may be immediate publication, for the information of those affected by the dispute and of the public generally, of an independent and authoritative account of the matters in difference.

“ It would appear desirable that there should be a Standing Arbitration Council on the lines of the present temporary Committee on Production to which differences of general principles and differences affecting whole industries or large sections of industries may be referred in cases where the parties have failed to come to an agreement through their ordinary procedure, and wish to refer the differences to arbitration. Such tribunal should include in its membership persons who have practical experience and knowledge of industry, and who are acquainted with the respective standpoints of employers and workpeople. There are, however, certain administrative difficulties connected with the

utilisation of tribunals of three or more persons, particularly where the parties desire that their case should be heard locally, and where the matter is one of relatively small importance, and it is desirable that suitable persons should be available to act as single arbitrators, where the parties agree to submit their case to a single arbitrator."

The Committee's conclusions were :—

- " (a) whilst we are opposed to any system of Compulsory Arbitration, we are in favour of an extension of voluntary machinery for the adjustment of disputes. Where the parties are unable to adjust their differences, we think that there should be means by which an independent inquiry may be made into the facts and circumstances of a dispute, and an authoritative pronouncement made thereon, though we do not think that there should be any compulsory power of delaying strikes and lock-outs.
- " (b) we further recommend that there should be established a Standing Arbitration Council for cases where the parties wish to refer any dispute to arbitration, though it is desirable that suitable single arbitrators should be available, where the parties so desire."

These recommendations were subsequently given legislative form in the Industrial Counts Act of November, 1919.

#### **The Final Report.**

On 1st July, 1918, the Final Report of the Whitley Committee (Cd. 9153) was published. The recommendations of the previous Reports were summarised and reaffirmed.

" Our recommendations," the Committee stated, " have the effect of conferring upon the Joint Industrial Councils, and through them upon the several industries, a large

measure of self-government. Any of the subjects which might perhaps have been suggested as forming objects of enquiry by the present Committee are matters which in our opinion can more usefully and profitably be considered by the Joint Organisations."

#### Operation of the Scheme.

The extent to which the recommendations of the Whitley Committee were carried out may be estimated from the following extract :—

" The success of the movement may be judged in part from the fact that, in the period covered by this Report, 73 Joint Industrial Councils have been established, covering many important industries and services, and including municipal and the Imperial Government services. Accurate statistics are not available as to District Councils and Works Committees, but it is computed that up to the end of 1921, not fewer than 150 District Councils had been established (apart from a considerable number of Departmental Councils established in connection with the National Council for the Administrative and Legal Departments of the Civil Service), while the number of Works Committees is probably well over 1,000. Certain of the important and well-organised industries of the country, *e.g.* coal mining, cotton, engineering, shipbuilding and iron and steel manufacture, having, as indicated above, well-established machinery for the discussion of matters between employers' and workers' organisations, have not established Joint Industrial Councils on the lines of the ' Whitley ' Scheme. The provision in the Railways Act, 1921, for the establishment of Joint Industrial Councils on the railway systems, and the steps subsequently taken for that purpose by agreement between the railway companies and the unions constitute a development of considerable importance.

“ Of the 73 Joint Industrial Councils hitherto established, 15 are not at present functioning. In certain of these cases, the Council during its existence did valuable work, such as the determination of the basis of future wage negotiations, and, moreover, a number of District Councils are continuing to function in industries where the national body has ceased to operate. Having regard to the very difficult conditions through which industry has been passing during the last few years, it is a matter of congratulation that so many Councils have withstood the strain. The aggregate number of workpeople covered by the Joint Industrial Councils and Interim Industrial Reconstruction Committees (a temporary form of joint body established in the less organised industries) at present actively functioning is estimated to be about three millions.

“ As might be expected from the abnormal and rapidly changing economic circumstances of the period under review, the activities of the Councils have been largely concerned with wages and working conditions ; in this connection many Councils have done valuable work in standardising wages and working hours, but all branches of working conditions have come under consideration . . . The Councils have also done useful work in connection with education, training and apprenticeship, unemployment, research and statistics, welfare, commercial problems and other problems.”

## APPENDIX D.

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### THE WORK OF THE EMPLOYMENT EXCHANGES.\*

In accordance with Labour Exchanges Act of 1909, the first Labour Exchange (as it was then termed) was opened in 1910. The main objects of the scheme were—

(a) To bring together employers needing workers, and workers needing employment.

(b) To supply the less organised workers with facilities in finding employment of the nature provided by the better organised trades.

(c) To provide the government with a means of measuring the extent of unemployment.

(d) To operate a system of unemployment insurance for certain trades.

(e) To deal with the problem of casual labour.

The scheme had been in operation for ten years, when following considerable public criticism of the system, a Committee was appointed to inquire into its work. The following statistics taken from their Report give an indication of the "placing" function.

				Daily averages.	
				1913.	1920.
					(Jan.-June).
Registration by workpeople	..	..	9,454	10,653	
Vacancies notified by employers	..	..	3,944	5,021	
Placing through the exchanges	..	..	2,984	3,451	

\* Adapted from the *Report of Committee of Inquiry into the Work of the Employment Exchanges, 1920* (Cmd. 1054).

“ These figures indicate that on their present basis the Exchanges would receive about 3 million registrations by workpeople and  $1\frac{1}{2}$  million notifications of vacancies by employers, and would fill a million places per annum. It will be seen that while about two-thirds of employers' notifications are filled through the Exchanges, about one-third of the workpeople who register are placed through the Exchanges.”

The records show that the Exchanges are mostly used by men in the building, engineering, and transport industries, and by women in domestic service (to the extent of two-thirds of the placings). Among the men, skilled labour takes up the greater share of the work of the Exchanges.

It must be remembered, when dealing with the criticisms of the cost of the Exchanges, and the alleged inefficiency in finding employment, that they “ were founded not solely, or even mainly, as placing agencies, but in order to prepare a machinery for the administration of Unemployment Insurance.”

After making a thorough inquiry into the system, the Committee came to the conclusion that the Exchanges must be retained, and that they were a necessary corollary of a system of Unemployment Insurance. Sundry recommendations were made respecting the machinery of the system, but the general principle was definitely approved of.

## APPENDIX E.

### COURSE OF UNEMPLOYMENT SINCE NOVEMBER 1920, AND EFFECT ON UNEMPLOYMENT INSURANCE SCHEME.\*

“ When the Act of 1920 came into force (November 8th, 1920) the great depression in trade had already begun to reveal itself. The following table indicates the rapid growth of unemployment in the six months from November, 1920, and the subsequent course of the figures. The numbers are those of persons registered at Employment Exchanges in Great Britain and include a proportion who were not insured, but this does not invalidate the comparison between the figures :—

End of	Wholly unemployed.	On systematic short time and claiming benefit.
November, 1920	494,106	Not available.
December, 1920,	701,179	421,012
January, 1921	988,363	595,086
March, 1921	1,310,568	795,815
May, 1921	1,992,171	1,132,139
June, 1921	2,044,655	776,986
September, 1921	1,322,434	295,910
December, 1921	1,776,131	297,334
March, 1922	1,637,376	205,475
June, 1922	1,405,293	106,235
September, 1922	1,319,912	58,904
December, 1922	1,357,981	54,670
March, 1923	1,243,424	55,292
June, 1923	1,189,059	60,177

\* *Report on National Unemployment Insurance to July 1923.*

“ These figures are without parallel in the worst years of pre-war unemployment of which there is a record. Had the Unemployment Insurance Scheme remained as it was framed in the Act of 1920, the strain thrown upon its resources would have been serious but by no means insupportable, for under the rules, and particularly the rule that periods of benefit are proportionate to contributions paid, the new entrants would have been entitled to little or no benefit, and many even of those who had been insured since 1911 or 1916 would have run out of benefit, during the long period of depression, without exhausting the resources of the Unemployment Fund.

“ Such a position, however, though strictly defensible on insurance principles, would have been a most unsatisfactory one. There would have been very large numbers of unemployed persons nominally insured but unable to draw benefit because the scheme had not been in operation at a time when they could have paid contributions. The remedy adopted was to graft on to the original scheme of what may be called ‘ covenanted ’ benefit (*i.e.* benefit drawn as of right by virtue of contributions) a system of ‘ uncovenanted ’ benefit. Uncovenanted benefit was allowed as a discretionary grant to unemployed persons who were normally wage-earners in insured trades and were genuinely seeking wholtime employment, but who had exhausted their rights derived from payment of contributions, or who even, in exceptional cases, had paid no contributions at all. The history of the Unemployment Insurance Scheme from 1921 onwards is largely that of the passing of one Act after another granting further extensions of uncovenanted benefit on account of the very large numbers who remained unemployed.

“ At the same time the ‘ covenanted ’ rights of insured

persons who had contributions to their credit were strictly preserved and were in some respects considerably enlarged."

### Ratio of Administrative Expenses.

- " (1) *Public Health Insurance*.—The total espenses of administration of National Health Insurance are met in part from contributions under the Acts and in part from moneys provided by Parliament. The former represents 7·7 per cent., and the latter 5·3 per cent., of revenue ; in all, 13 per cent.
- " (2) *Unemployment Insurance*.—All costs borne on the Votes for the Ministry of Labour or other Departments, including the expenses of paying Unemployment Benefit and the costs incurred in placing insured workpeople in work, amount to 8·3 per cent. of the revenue.
- " (3) *Workmen's Compensation*.—The average total expenditure for the year 1921 is 37·04 per cent., made up of commission, 11·93 per cent., other expenses of management, 25·11 per cent.
- " (4) *Industrial Assurance Collecting Societies*.—The average total expenditure for the year 1921 is 43·6 per cent., made up as follows :—

	Per cent.
" Office salaries .. .. .	9·1
" Agents' and collectors' remuneration ..	29·5
" Other expenditure .. .. .	5·0

- " (5) *Industrial Assurance Companies*.—The average total expenditure for the year 1921 is 41·9 per cent., made up as follows :—

	Per cent.
" Commission .. .. .	22·7
" Other expenses of management.. ..	19·2 "

**Contributory Principle of Insurance.**

“ There appears to be a widespread belief that unemployment benefit, or, at any rate, so much of it as is uncovenanted, is provided by the taxpayer—as witness the common ‘dole.’ In truth—and the fact cannot be too strongly emphasised—one-fourth, and no more, of the sum now being paid in benefit and of the cost of administration falls upon the taxpayer, and this represents at the present time the whole of the Exchequer contribution to the Unemployment Insurance Scheme; three-fourths of the benefit and administrative costs falls upon the insured workpeople and their employers.

“ The total contributions from employers, employed and the Exchequer from the initiation of the scheme in 1912 to 1st July, 1923, are as follows :—

			£
Employers	..	..	48,000,000
Employed	..	..	44,600,000
Exchequer	..	..	31,500,000

In addition £2,670,000 was received from the Service Departments in respect of men discharged from the Forces after July 31st, 1920.

“ As the revenue during the last two years has not been equal to the outgoings, money has been borrowed from the Treasury, but this loan, amounting at June 30th, 1923, to £15,600,000, has been borrowed at interest, and the whole of the loan and interest is repayable by employers, employed and the State approximately in the proportions indicated. The existence of this debt, therefore, does not in any way constitute a grant from the taxpayer.

**Practicability of Unemployment Insurance.**

“ Experience has shown that compulsory insurance against unemployment is entirely practicable. The ex-

tended scheme of insurance has passed successfully through the crucial test imposed by an immense volume of unemployment, unprecedented both in intensity and duration, which threw an almost intolerable strain on newly-fashioned machinery, and has continued with little abatement for the past two and a half years. The Unemployment Fund has provided benefits vastly greater than those originally contemplated. It has done so, it is true, at the expense of largely increased contributions and of a considerable debt ; but the debt is not so large that it cannot be paid off in a comparatively short space of time as soon as trade revives, and the financial stability of the scheme is not open to serious question."

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